# CEMENT MARKET STUDY

# Contents

## INTRODUCTION

The Secretariat of the Gambia Competition and Consumer Protection Commission (GCCPC), a statutory body established to enforce the Competition Act 2007 and administer the Consumer Protection Act 2014, conducted a market study of the LPG sector in line with section 15 (k) of the Competition Act 2007. The Competition Act gives the Commission the powers to study the existing markets and make policy recommendation to government where necessary in order to create a level playing field. The purpose of the study is to have an in-depth knowledge about the sector and determine if the operations of market players contravened any provisions of the Competition Act 2007, and the extent to which the goods and services suppliers/players provide are favorable to or adverse to consumers interests.

The decision to study the Liquefied Petroleum Gas (LPG) stems from the growing usage of LPG by consumers as substitute for traditional fuels like charcoal and firewood. LPG is used solely as a cooking fuel in Gambia. It is not only easier to use but is less time consuming and more environment-friendly. Most modern residential and commercial properties in the Gambia now have inbuilt kitchens which makes LPG the only choice for its occupiers.

The growth of the LPG market over the years has not only lessened the rate of deforestation; but has also created opportunities for entrepreneurs to venture in. Thus the sector needs to be highly competitive for economic efficiency and consumer welfare purposes. The aim of this study is to critically analyze the market, identify competition issues and advise government accordingly on how to make the sector more competitive.

The study looked at the general state of competition; Gambia's pricing determination and mechanisms as compared to countries in the sub region, the legal and regulatory framework and government intervention in the sector in recent years.

## I. STUDY METHODOLOGY

The study was informed by primary and secondary sources. The primary research included data collection on prices of LPG throughout the Greater Banjul Area, personal interviews with the sole importer, and seven major wholesalers. Information was also gathered from Gambia Import and Export Promotion Agency (GIEPA) and Gambia Revenue Authority (GRA) to inform the study and determine if the businesses in the sector enjoyed any incentives or tax breaks. Secondary data was obtained from research on the internet about LPG sectors in the sub region, their market structures and dynamics, their prices and how they are determined. This was done with a view to finding out the prices and price determination mechanisms of LPG in countries within the sub-region to draw a comparison and suggest recommendations where necessary.

The study analyzed the market share of individual wholesalers for a possible monopoly situation. It also computed the market concentration using the Herfindahl-Hirschman Index (HHI) to determine the market structure. Major findings were highlighted and recommendations issued for possible solutions.

## II. LIMITATIONS OF STUDY

The majority of the major wholesalers exhibited reluctance in providing data in regards to their sales / revenue figures or amount of purchases made. The Commission found it difficult to obtain prices of LPG from the other countries. These factors delayed the study.

**PRICE DETERMINATION**

The purpose of this section is to highlight the prices of LPG in the Gambia and its administrative regions as compared to few countries in the sub region. It also compared the factors that determine the LPG prices in the Gambia and countries in the sub region.

a. National Pricing

The LPG market in The Gambia is still at its infant stage. LPG was firstly introduced in the Gambia as a project in the early years of 1980s and then in 1990 as Regional Butane Project under CILSS Gas Project. During that time, The Gambia's main source of LPG was from Senegal which was accompanied with numerous setbacks ranging periodic shortages to foreign exchange vulnerability.

Before the advent of the regulated prices, the LPG market was an open market owing to the fact that there was no mechanism put in place to set a price formula, regularize and even monitor LPG prices in The Gambia. However, in 2015 the Ministry of Petroleum in collaboration with the wholesalers had a meeting which was intended to set a uniform price on both the wholesale and retail prices which eventually was approved by the Government. These national prices were expected to apply in all the administrative Regions in The Gambia. However, the monitoring mechanism does not extend to other regions as it is concentrated in the Greater Banjul Areas (GBA) as well as the West Coast Region (WCR). For this reason, the price of LPG sold in the provincial areas is higher than the price in the GBA and WCR. The wholesalers add their transportation cost to the wholesale prices, it is sold on average for about D185 and D390 for the 3Kg and 6Kg respectively and the retailers sell it to the consumers on average about D225 and D450 for the 3Kg and 6Kg respectively. The 12Kg is not usually sold in the provinces.

*Regulated LPG Prices*

| CATEGORY (Kg) | GOVERNMENT APRROVED RETAIL PRICES (D) | GOVERNMENT APRROVED WHOLESALE PRICES (D) | DIFFERENCES (D) |
|---|---|---|---|
| 3 | 200 | 180 | 20 |
| 6 | 375 | 360 | 15 |
| 12 | 730 | 710 | 20 |

**Table 1: Regulated LPG prices**

Moreover, previous research in this sector revealed that the retailers in the border towns/ villages to Senegal prefer buying LPG from Senegal as it is a lot cheaper compared to the regulated prices and closer in terms of proximity.

The enforcement mechanism is yet to be fully effective in that some retailers are not adhering to the prices due to lack of sanctions stipulated in the directive for violators.

b. Comparative Study Across Country/Region

**THE GAMBIA LPG MARKET AGAINST OTHER WEST AFRICAN COUNTRIES**

The LPG sector in The Gambia like other LPG importing countries in West Africa (Guinea Bissau and Mauritania) is regulated by government. Like Mauritania the LPG sector in The Gambia is regulated by the Ministry of Petroleum whilst in Guinea Bissau it is being regulated by the Ministry of Natural Resources and Industry.

The price of LPG is $1.58 per Kg in The Gambia as at June end 2016. Mauritania registered the lowest price with $0.96 per Kg whilst Guinea Bissau recorded the highest, $1.69. According to the article by the Oxford Institute for Energy, West African countries are classified into importing and producer countries. Producers and exporters include countries such as Senegal, Ghana and Ivory Coast whilst importing countries are Guinea Bissau, The Gambia and Mauritania. Senegal even though they produce LPG most of their LPG is primarily from imports. Local production is available from the local refinery in Senegal, but it is small compared to the total market requirements of the country. The local refinery is jointly owned by the government and private oil marketing companies.

Senegal serves as a substitute market for Gambia LPG consumers living along the border lines with Senegal. LPG cost $0.98 per Kg in Senegal compared to $1.58 per Kg in The

Gambia. As a result consumers in the bordered villages/towns source LPG from Senegal given the prices. It is important to note Senegal has four major firms (Shell, Total, Mobil, and Elf) that import LPG complementing the local refinery whilst The Gambia has only one importer (EAGL) with no local refinery. Hence the level of competition is stiffer in Senegal than The Gambia.

**MARKET STRUCTURE**

I. VALUE CHAIN

Below is an illustration of the value chain of LPG in the Gambia.

**Importer** → **Major Wholesalers** → **Middlemen** → **Retailers** → **Consumers**

**Importer (Euro African Group Limited)**

The Gambia does not produce liquefied petroleum gas (LPG); it imports it from mainly Holland. Euro African Group Limited is a privately owned company and is currently the only importer of LPG. It imports the LPG and stores it at the Gam Petroleum depot in Mandinaring. EAGL has 42% of shares in Gam Petroleum whilst The Gambia Government owns the remaining 58%. The depot has a storage capacity of 800 metric tonnes for LPG. They sell LPG in bulk to wholesalers and it is transported by LPG tank trucks. Currently all wholesalers have their own filling stations where they fill their individual cylinders independently.

EAGL had a monopoly on the importation since their existence in 2009, when Government gave them the exclusive rights to be the sole importers. In mid-2014 it was proclaimed that the Government liberalised the importation of LPG, by allowing other companies to import. However, the importation cannot be done by land. Historically, when the market was liberalised before the existence of EAGL, most of the importations were done by land from neighbouring Senegal. The law pertaining to the liberasation of the LPG importation was assented to in 2016.

**Major wholesalers**

There are seven major wholesalers of LPG, they are all privately owned companies and currently employ a total of about hundred and fifty (150) people. They are GALP, Njegan, Hadim, Coringba, Jah Gas, Amina's Holdings and Native Gas. They have a wholesalers association in which all wholesalers are members except GALP but it is not as functional as expected. For the period under study GALP were key players in the sector but towards the end of 2016 they exited the LPG market and sold the LPG component (cylinders and

LPG plant) of their business to ATLAS, who are now the newest players in the sector. The main role of the wholesalers is to buy LPG in tonnes directly from EAGL and resell them in cylinders to retailers, middlemen or at times consumers directly. They sell their LPG in 3 kg, 6kg and 12 kg cylinders for domestic use, and also sell larger categories in cylinders which are mainly used in the tourism industry (hoteliers and restaurants).

Besides Galp energia, none of the gas dealers has its own cylinder. They purchase unbranded gas cylinder from Senegal in which they fill in the gas. Upon purchase of gas, consumers deliver their own empty cylinder which is exchanged with the gas dealer's cylinder. Consumers can also go with their empty cylinders to gas dealers for filling.

Galp on the other hand has its own branded cylinder. All galp branded cylinders belong to Galp energia and consumers pay deposit for an empty cylinder. Upon purchase of gas, consumers deliver the empty cylinder for filling. Consumers can also return their Galp cylinders (in the event that they don't want the cylinder) for their deposits.

All other dealers accept unbranded cylinders from their competitors but Galp accept only their cylinders. The only way to differentiate their unbranded filled cylinders is the colour of their cylinder caps, as all of them have different colour caps.

**Middlemen**

The role of the middlemen is to buy the LPG cylinders from the major wholesalers and sell them to retail outlets. Some of the middlemen are also paid commission on sales made. Most of the middlemen are from the informal sector, unregistered and are very difficult to track. Not all major wholesalers use the services of middlemen, as some directly supply the retail outlets.

**Retailers**

The retailers are the last players in the LPG value chain. They receive supplies from either middlemen or major wholesalers, and then sell it to the general public. They operate primarily through petrol stations, local corner shops and supermarkets. Some major wholesalers also do retailing.

II. MARKET SHARE

The market share is used to determine an enterprise's power within an industry which serves as a litmus test of dominant/monopoly situation under the competition Act 2007.

The table below shows the percentage each dealer holds in terms of total metric to purchase for the period under review.

| Year | 2015 | | | | 2016 | |
|---|---|---|---|---|---|---|
| Qtr | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Qtr 1 | Qtr 2 |
| Amina | 4% | 2% | 2% | 2% | 3% | 5% |
| Corringba | 1% | 0% | 0% | 0% | 0% | 1% |
| Galp | 89% | 93% | 93% | 93% | 91% | 83% |
| Hadim | 2% | 1% | 2% | 1% | 1% | 2% |
| Native | 3% | 2% | 2% | 2% | 3% | 4% |
| Njegan | 2% | 1% | 1% | 1% | 2% | 4% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

***Table 2: Market Share***
***Source: Author's computation using data from LPG Dealers' purchase statements.***

The table above depicts the market shares of all major LPG retailers in The Gambia for the period under study. There existed a monopoly situation in all the quarters as defined by section 31 of the Competition Act 2007**,** which states that "*a firm with 30% or more market share in a particular sector is deemed to be in a monopoly situation*". Galp energia enjoyed a monopoly situation all through with significant market shares of 89% in quarter 1, 93% in quarter 2, quarter 3 and quarter 4 of 2015 and 91% and 83% in quarter 1 and quarter 2 of 2016 respectively. It is important to note that GALP has now exited the LPG market, and sold their LPG cylinders and plant to ATLAS.

III. MARKET CONCENTRATION

Market concentration is used to determine a market structure and the level of competition within an industry.

***Below is a table representing market concentration of LPG:***

| **Dealer/Qtr** | **1st Quarter of 2015** | **2nd Quarter of 2015** | **3rd Quarter of 2015** | **4th Quarter of 2015** | **1st Quarter of 2016** | **2nd Quarter of 2016** |
|---|---|---|---|---|---|---|
| Amina | 16 | 2 | 4 | 4 | 9 | 25 |
| Corringba | 1 | 0 | 0 | 0 | 0 | 1 |
| Galp | 7921 | 8649 | 8649 | 8649 | 8281 | 6889 |
| Hadim | 4 | 1 | 4 | 1 | 1 | 1 |
| Native | 9 | 4 | 4 | 4 | 9 | 81 |
| Njegan | 4 | 1 | 1 | 1 | 4 | 16 |
| **Total** | **7955** | **8657** | **8662** | **8659** | **8304** | **7013** |

***Table 3: Market Concentration***

The above table shows the calculated market concentration using the Herfindahl-Hirschman Index (HHI). The computed Concentration Index for the periods were **7,955, 8657, 8662, 8,659** for quarter 1, quarter 2, quarter 3, quarter 4 of 2015 and **8,304** and **7013** for quarter 1 and quarter 2 of 2016. Market concentration as measured by the HHI is divided into three regions that can be broadly characterized as unconcentrated (HHI below 1000), moderately concentrated (HHI between 1000 and 1800), and highly concentrated (HHI above 1800). This indicates that the LPG sector is highly concentrated for the period under review. It also implies that, Galp has the potential to influence price and quantity.

It is important to indicate that there is only one importer of LPG in The Gambia, EAGL. This makes the sector less competitive.

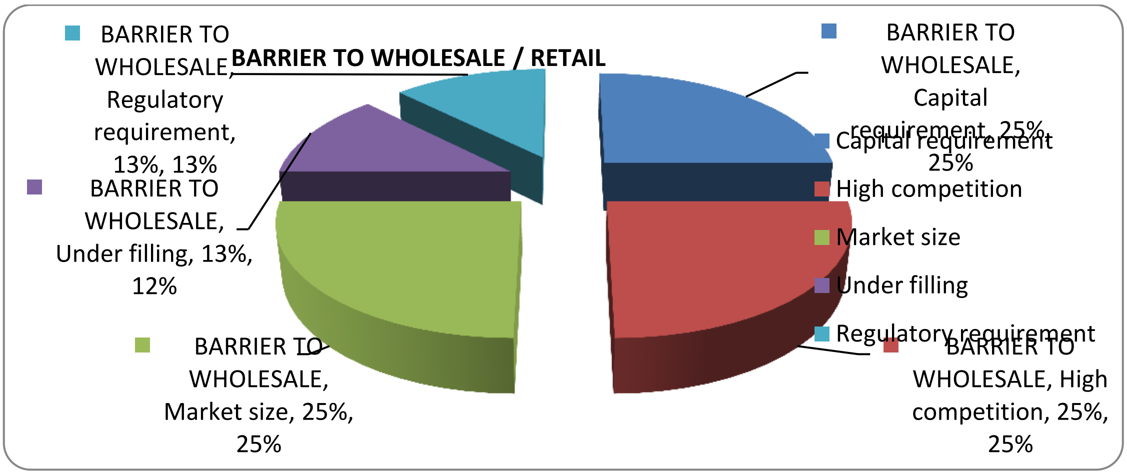
## IV. ENTRY AND EXIT DYNAMICS

### a. Barriers to entry

Wholesale / Retail level

Among the potential barriers to entry into the wholesaling / retailing of LPG in The Gambia, respondents highlighted capital requirement (25%), high competition (25%) and market size (25%) as their major barriers to entry. It is interesting to note that, 13% of the respondents indicated that some players under fill cylinders which enables them to reduce the quantity of LPG in each cylinder without the consumers knowing, thus makes it difficult for new entrants who fill their cylinders to capacity to compete. The regulatory requirement (13%) was ranked among the least barriers to entry in wholesaling / retailing as shown in the chart below.

**Figure 1: LPG WHOLESALES POTENTIAL BARRIERS TO ENTRY**




Below are explanations of some of these barriers in LPG wholesaling / retailing:

**Capital requirement**

A quarter of the respondents felt that capital requirements to start up were their major barrier. Cheap source of finance for the private sector has been a major problem for the Gambia over the years. With interest rates at times as high as 30% and stringent collateral requirements from banks has made it difficult for most of the major wholesalers to penetrate the LPG market.  The LPG business is capital intensive, as it requires the wholesalers to have ample land, machinery and tank trucks.

**Competition from established brands**

At the time some of the major wholesalers were entering the market, 25% of the respondents stated that there were very strong brands of LPG which were household names in the Gambia, thus it was very difficult to enter the market, and compete.

**Market size**

25% of the major wholesalers lamented that the market size for LPG is too small as it is majorly concentrated in the Greater Banjul Area (GBA), so it was difficult to enter the market and get reliable clients.

**Under filling of cylinders**

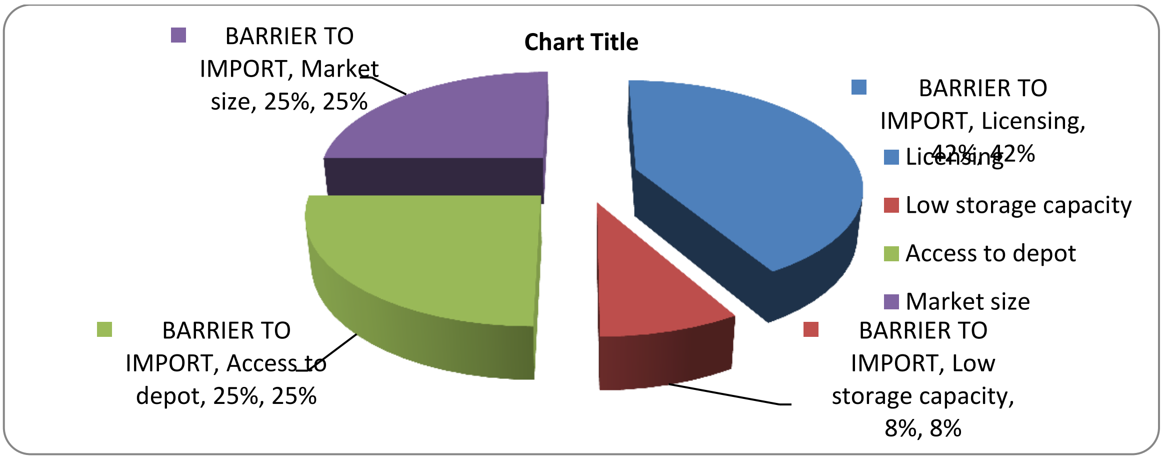
According to some major wholesalers (13%), at the time of entry there were a lot of businesses selling under filled LPG cylinders and this made it very difficult to compete.

**Regulatory requirements**

13% of the respondents stated that regulatory requirements were among the major barriers to entry. It is important to note that there has been inadequate legal / regulatory framework governing most of the activities of the businesses, thus there was lack of transparency on procedures and rules etc.

## IMPORT LEVEL

**Figure 2: LPG POTENTIAL BARRIERS TO ENTRY TO IMPORT**




**Source:** ***Computed from filled questionnaires by respondents***

The chart above depicts that licensing is the major barrier to entry into LPG importation business, as 42% of the respondents lamented that access to import license frustrated their desire to import. Access to depot for storage was highlighted as an import barrier by 25% of the interviewees. The last major constraint was the limited size of the Gambian market, as 8% of respondents' highlighted this as a barrier.

Below are explanations of some of these barriers in LPG importation:

### Obtaining license to import LPG (import license)

Lack of license to import has been a major outcry for wholesalers, such that 42% of them highlighted it as their major barrier. Since importation of LPG by sea has been liberalised, the major wholesalers are yet to penetrate that market. According to the Ministry of Petroleum, Government is still working finalising the processes and procedures needed to obtain a license for LPG. Some of the major wholesalers have expressed their interest in importing LPG by the sea, and are currently waiting for the government to finalise the processes and procedures required for them to apply for licenses.

### Lack of access to store in the depot

25% of major wholesalers stated that one of their main concerns with regards to eventually importing is lack of access to depot. Most of them have at most 30 tonnes of storage capacity at their premises, so if they import they would need access to the depot for storage. Over the last year the Government has been working on liberalising the depot so that all players would have access to storing petroleum products at the depot at certain fees / charges.

**Market size**

Given the limited market size 25% of the respondents felt that it wouldn't be feasible to import LPG in bulk, there is often a minimum quantity requirement to be imported and some lamented that if they imported LPG in bulk form it would be difficult to sell it in the Gambian market.

**Storage Capacity**

8% of the respondents alongside EAGL believe that the depot with storage capacity of 800 metric tons is not big enough. According to EAGL the freight cost per metric ton is very high due to low importation volumes as a result of the small storage capacity in depot. This high cost of freight has led to the relatively expensive prices of LPG.

With the current storage capacity not adequate enough for the sole importer, how can it serve the possible competitors wanting to import? The liberalisation is good step in eliminating barriers to entry. However, it wouldn't fully address the storage barrier unless the storage capacity is increased. This increment will make the market more attractive for potential importers as they can now import in bigger quantities, enjoy lower freight cost and charge lower prices to consumers. The market will be more competitive and consumer welfare would be enhanced.

**Capital requirement**

Surprisingly capital requirements weren't among the major barriers highlighted by respondents. However through interviews, some of the major wholesalers stated that they may find it difficult to import LPG due to lack of adequate financing. Generally importing through shipment requires a minimum quantity to be bought and often the minimum quantity is high. This could serve as an entry barrier for small businesses, as they may find it difficult to meet quantity requirements. However, most of the major wholesalers stated that they were willing to seek new investors to make this prospect a possibility.

b. Barriers to exit

**WHOLESALE / RETAIL**

According to the major wholesalers, the main exit barrier in their path if/when they wanted to leave the market is high cost of investment, as they are yet to fully recover their cost of investment, and thus would incur major losses if they were to exit market at this point in time. Basically, they consider the costs of leaving to be higher than those incurred if they continue competing in the market.

## V. LPG CONSUMPTION IN THE GAMBIA

The consumption of LPG, mainly as a cooking fuel, has also been falling over the period under review except for the 4th quarter of **2015** when there was a slight increment in consumption as shown in **Figure 3**. The highest LPG consumption occurred in the second quarter when a total consumption of **5,636** metric tons was recorded and the lowest was consumed in the 6th quarter (**3,024 metric tons**).

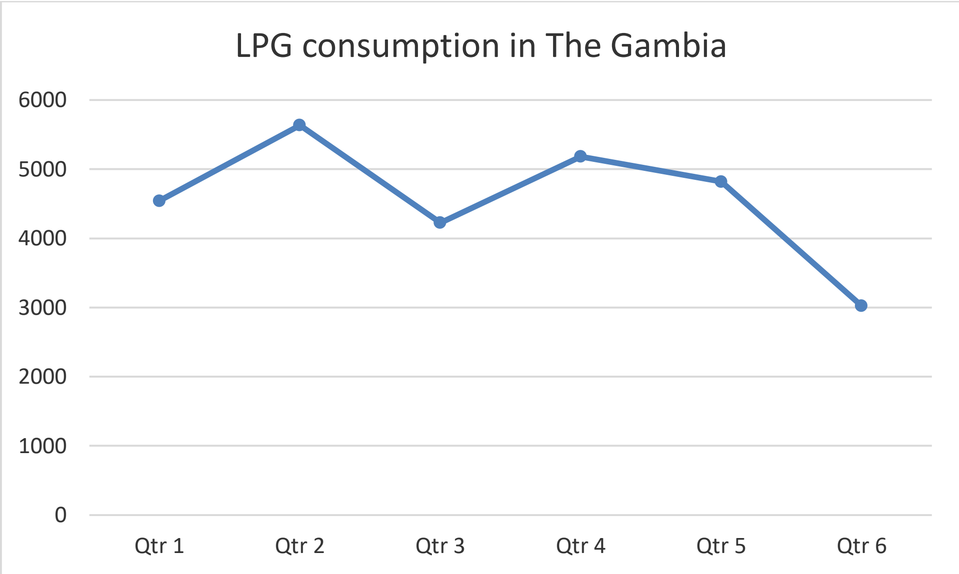



***Figure 3: LPG consumption in The Gambia***
***Note: 5th and 6th quarters are in reference to the 1st and 2nd quarter of 2016***

## REGULATORY / LEGISLATIVE FRAMEWORK IN THE GAMBIA

The Ministry of Petroleum is responsible for all petroleum products in the Gambia. However this responsibility is shared with other Ministries and Agencies. The National Environment Agency (NEA) is responsible for environmental issues with regard to the sector, safety requirements are under purview Gambia Fire and Rescue Service (GFRS) whilst health issues are addressed by the Ministry of Health (MOH). The Gambia Standards Bureau (GSB) is in charge of setting mandatory standards of all products and services including LPG, but sector regulators make these standards technical regulations. According to the new Act, any person who wishes to be licensed to take part in the supply chain of petroleum products shall submit an application to PURA with additional authorisations from other competent authorities if and when required by applicable laws.

For many years the only legislation in existence in the Gambia for the regulation of Petroleum Sector was the Petroleum (Exploration, Development and Production) Act, 2004. There was no operative act or regulations governing the importation and selling of petroleum products. However, in December 2016 the Petroleum Products Act was passed, and it is to be enforced by the Public Utilities Regulatory Agency (PURA). One of the main reasons behind promulgation of this legislation as lucidly stated in the preamble to the legislation is "to encourage and protect fair competition in the petroleum products supply market."

I. EXISTENCE OF COMPETITION IN THE SUPPLY CHAIN

Section 18 of the Act elucidates and guarantees the existence and maintenance of fair competition in the supply chain. Section 18(1) provides that any person, whether Gambian or foreign, may participate in all or any activities of the supply chain, subject to this Act and any applicable laws. Supply Chain is defined under the Act as "all operations, activities, installations, equipment and other facilities directly or indirectly related to the petroleum products supply operations." It is also stated in section 18(2) that the minimum capital for any supply chain activity shall be determined by regulations. It is important that for the effective promotion and maintenance of fair competition that this minimum capital is not prohibitively exorbitant. If the minimum capital for participation in supply chain is exorbitant, it will inevitably become a barrier to entry in supply chain activity and distort competition. Section 19(1) of the Act provides that all petroleum products supply operations shall be subject to the Competition Act, 2007. Section 19(2) of the Act also prohibits all forms of anti-competitive conducts/behavior in the supply chain activity.

The Commission (GCCPC) has a very important role to play in the effective implementation of the Petroleum Product Act, 2016. In addition to its mandate of enforcing the Competition Act, 2007, and administering both the Consumer Protection Act, 2014 and Essential Commodities Act, 2015, the Commission is also tasked with the responsibility of monitoring the conditions of the market and business practices of licensees in the Supply chain under section 19(4) of the Act. This is in line with the Commission's mandate of giving directions and imposing sanctions on enterprises for their complicity/involvement in anti-competitive practices. It is also in line with Commission's mandate to advise on any action taken or proposed to be taken by the State or any public body that may adversely affect Competition in the supply of goods and services under section 15(i) of the Competition Act 2007.

Section 19(5) of the Petroleum Products Act asserts that the Minister (the Minister responsible for petroleum and petroleum products matters) could take any action as may be necessary in the public interest against any form of anti-competitive practice or any other act or omission contrary to section 19. This means that the Minister has a crucial role to play in the implementation of the provisions of the Act. The Act is silent on the issue of conflicting and concurrent jurisdictions. However, the solution to this problem lies in the provisions of section 35(1) of the Consumer Protection Act, 2014. Section 35(1) of the Act provides that "where there is a conflict between the provision of this Act and the provisions of any other written law with regard to matters concerning consumer welfare and the powers or function of the Commission or a Tribunal under this Act, the provisions of this Act shall prevail.

II. SHARING OF FACILITIES TO PROMOTE COMPETITION

Section 20 of the Petroleum Products Act 2016 imposes an obligation of negotiated access to unused capacities of third party facilities in order to promote competitive market in petroleum products. Section 20(1) of the Act Provides that " for the purpose of promoting the creation of competitive petroleum products market for licensees in the supply chain, the use of third party facilities shall be prescribed in Regulations." This will encourage new entrants who do not have the financial strength to provide the full cost of these facilities to hire the unused facilities by making reasonable financial offer and venture into the petroleum products market.

III. REGULATION OF PRICING

The Petroleum Products Act 2016 provides for the regulation of petroleum products. Section 24(1) of the Act states that the Minister responsible for petroleum and petroleum products matters, may in consultation with the Minister responsible for Finance, make regulations addressing the pricing rules that will apply in respect of certain categories of petroleum products. Section 24(2) provides that the regulations include provisions concerning: (a) the establishment of a pricing committee to monitor international petroleum products prices and advice the Minister responsible for petroleum and petroleum products matters accordingly (b) the price at which products in certain categories will be fixed (c) the classification of petroleum products into different pricing categories (d) the maximum mark-up that can be charged by different licensees in the supply chain and (e) rules for the variation of the fixed pricing.

Section 24(2)(b) and (c) conflicts with the provisions of section 25 of the Competition Act 2007 which prohibits price fixing. Competition will not be promoted and maintained if the state is involved in determining the price at which petroleum products in certain categories will be sold.

IV. MINIMUM STOCK (hoarding)

Section 14 of the Petroleum Products Act, 2016 imposes a legal obligation on each licensee to maintain a minimum stock level in order to avoid the creation of artificial shortage of petroleum products in The Gambia. Failure to adhere to the minimum stock level requirement can lead to suspension or revocation of license. Hoarding is also a violation of the Commission's three Acts, Competition Act 2007, Consumer Protection Act 2014 and Essential Commodities Act 2015. In the Competition Act 2017, hoarding is considered an abuse of dominance thus business has to be in monopoly position (at least 30% of a market by a single business or at least 70% of a market by three or fewer businesses) for hoarding to be considered illegal. With regards to the Essential Commodities Act 2015 the petroleum products are not deemed as essential commodities in the Gambia.

## STATE SUPPORT / GOVERNMENT POLICY

In terms of incentives offered to all categories of businesses, The Gambia Investment and Export Promotion Agency (GIEPA) helps by providing the following:

- Corporate Or Turnover Tax- 30%
- Value Added Tax on imported Direct INPUTS- 15%
- Depreciation Allowance – 15%
- Import Duty on Capital Goods/ Direct Inputs- range 0%- 20%

According to GIEPA, currently EAGL and the major wholesalers do not have an incentive certificate or any kind of subsidy. Incentives would have been vital in helping reduce the price of LPG products and services, like Senegal has done few years ago. There are already traditional substitutes for LPG which are charcoal and firewood thus as long as prices of LPG remain high most of the populace will be reluctant to switch to LPG. Incentives and subsidies will perhaps help suppliers provide more affordable and high quality LPG products and services which will increase the LPG usage in the country and probably make the sector more competitive internationally.

## OTHER FINDINGS

- There are not enough cylinders in the market, almost the cylinders in the Gambia (apart from Galp's) are from Senegal, most of which are very old, sub-standard and raises safety risks
- Only Galp utilize branded cylinders, the rest of the major wholesalers share cylinders within themselves
- Some of the major wholesalers wish to brand and import new cylinders however they stated that with lack of regulations in regards to cylinders they have no guarantees their investment will be worthwhile
- There are very few technical experts in the LPG field, most of the businesses have to recruit foreign experts and it is usually very expensive
- Some of the major wholesalers revealed that they are not satisfied with the standard and cost of services rendered to them by the sole importer (EAGL), and this they believe has resulted to them charging a relatively high price for LPG to

consumers.

Conclusion

The sector is still at its infancy stage but the Commission is confident that with the new Petroleum Products Act, 2016 which liberalised the market, competition will lead to the growth of the sector. The new Act aspires to encourage and protect competition in the sector and this will likely lead to the enhancement of consumer welfare. Major issues (supervision and monitoring of the importation, exportation, transportation, supply, storage distribution and lack of standards, health and safety requirements) constraining the sector's growth, have also been taken care of by the Act. The Commission found no anti-competitive behaviours in the sector; however it is still keenly monitoring the sector for competition and consumer protection violations given the liberalisation and intense competition that is expected in the coming years.

Recommendation

1. The price regulations to be removed now that the market is fully liberalised.
2. The GSB to collaborate with PURA, NEA and GFRS to set standards and technical regulations on LPG, with regard to cylinders, environmental, health and safety requirements.
3. PURA to ensure that all cylinders are fully branded with their own cylinder colours, logos etc and a cylinder exchange pool to be introduced.

## **EXECUTIVE SUMMARY**

The Gambia Competition and Consumer Protection Commission (GCCPC) carried out a market study of the cement industry in line with its mandate to conduct studies on key sectors of the economy under section 15(k) of the Competition Act 2007. A Market Study is one of the ways the GCCPC promotes competition in the economy. The aim of a market study is to assess the competition in a particular area and recommend ways of improving it so that consumers benefit.

The Gambia, like many sub-Saharan African countries, is a cement importing country with little industrial activity other than its packaging. Cement prices in recent years have been increasing at an alarming rate resulting in the outcry of consumers countrywide for the authorities to do something about it. This prompted the Commission to carry out a market study to ascertain if anti-competitive behaviors are responsible for such perennial increases.

The study, which entailed, among other things, visits to three cement bagging plants operated by three companies, however, found the industry more competitive than it was before. The reasons for the frequent price rises are identified as the insufficient local capacity to meet the demand for cement, depreciation of the dalasi against the CFA franc which is the main currency used in procuring the commodity from neighbouring Senegal, the frequent scarcity of foreign exchange, and the country not being a cement producer, which need to be urgently addressed by the authorities in the interest of the consumers and the economy.

## INTRODUCTION

The cement industry in The Gambia is in its infancy. The bulk of the cement consumed in the country is mainly imported from neighbouring Senegal. Three cement bagging plants in the country, operated by Gacem, Jah Oil Company, and Salam, respectively, only bag imported loose cement. Gacem was the first to be established in 1993. The other two came into operation in 2011 and 2013, respectively.

The cement business has been booming as a result of increased infrastructural development. However, the increased domestic demand for the commodity has not been matched by supply, thus contributing to the significant price increases being experienced by consumers lately **(see annex, for import volume)**. The high prices have been a nationwide concern as they push up construction cost. The impact of frequent increases can be seen in the slowdown in infrastructural development.

All three companies have their own brand names: GACEM, TIGER (Jah Oil Company) and SALAM. Others involved in the cement business import the already bagged commodity from Senegal. Due to the high costs involved in setting up a cement plant, investment is limited and monopolized by the three companies.

## PURPOSE OF THE STUDY

The growing consumer outcry nationwide over the increasing price of cement prompted the Commission to conduct this study to determine if anti-competitive practices are the primary or a contributory factor to the growing trend, and to assess the effect of increasing prices on consumers and the economy.

## STUDY METHODOLOGY

Information was gathered through (1) the review of relevant documentation furnished by four government sources, namely, Ministry of Trade Regional Integration and Employment (MOTIE), The Gambia Revenue Authority (GRA), The Gambia Bureau of Statistics (GBOS), and The Gambia Import and Export Promotion Agency (GIEPA), (2) from thirty-two interviews with key players in the business and a cross-section of consumers, and (3) from questionnaires completed by three categories of respondents. The data gathered, compiled and analyzed covered the period 2010 to the second quarter of 2014.

The study team visited all regions of the country and main crossing points on the northern and southern borders with Senegal to obtain firsthand information on how the cement trade is operated.

A meeting was also held on the 28th January 2015, with the major cement dealers to validate this report and gather information about the current state of the market.

## MARKET DEFINITION

The "market" is defined by the product and the geographical space in which it is marketed or it serves. In this case, the product is cement, which has no known substitute, and The Gambia constitutes its geographical market.

## PROFILES OF THE THREE CEMENT BAGGING COMPANIES IN THE GAMBIA

### GACEM

Gacem, was established in 1993 as a subsidiary of Italcementi Group, one of the world's largest cement producers. Its plant is located in the Kanifing Industrial Area. As the pioneering company in the industry, Gacem is the biggest importer of un-bagged cement, which it gets from Portugal, Spain, Italy and Senegal, and bags and sells in the domestic market under the name "Bambo Cement", consumed largely in the Greater Banjul Area.

**JAH OIL COMPANY**

Jah Oil Company, established in 2011, packages and sells its product as “Tiger Cement”. The company has emerged as a major player in the cement business within a relatively short period of time as a result of its presence and strategic location upcountry. It has two plants, one in Brikama and the other in Basse. The Basse facility is the main distributor of cement in the Upper River Region, Central River Region, Lower River Region, and North Bank Region. The Brikama plant supplies the West Coast Region and the Greater Banjul Area. Though the only company with a plant up country its products are cheaper than, Socosim and Les cements du Sahel which are bagged cement imported from the Senegal sold there.

**SALAM**

Salam Cement has its main office along Jimpex Road in the Kanifing Industrial Area. The company which started as an importer of bagged cement from Senegal, name brand “Socosim”, switched to cement bagging in 2013 with brand name “Salam” at its plant located at Denton Bridge. It imports the commodity from Senegal, Morocco and Portugal.

**INVESTMENT INCENTIVES**

The cement industry enjoys three kinds of incentives namely the ECOWAS Trade Liberalization Scheme (ETLS), Special Investment Certificate (SIC) and duty waivers. ETLS is a market access facility that promotes the West African region as a free trade area. It encourages manufacturing and agriculture within the region. Through ETLS, businesses can export products to member states Duty-Free enabling easy access to markets easily provided the following criteria are satisfied:

1) Sourcing 100% of raw materials from the West African region or

2) 30% of value added to the product is done within the region.

If a business qualifies it is certified by the National Approval Committee following verification of documents by ECOWAS, after which the state-members will be notified.

Jah Oil (tiger) and Salam Company (Salam) currently enjoy Special Investment Certificate (SIC), a support to infant factories from GIEPA. This is an incentive given to new businesses and it serves as an attraction for potential new entrants into the industry. The SIC exempts businesses from paying corporate or turnover tax, value added tax on imported direct inputs, depreciation allowance and also withholding tax on dividends. Thus the two enjoy a cheaper importation cost than Gacem. Gacem also enjoyed SIC during its infancy.

Touray Brothers, The leading importer of bagged cement (Sococim cement from Senegal) enjoying duty waivers as supplier of cement for the construction of the National Assembly building and to American International University**.** Contracts offered by the Government have agreement on duty waiver with businesses for the importation of materials needed for that specific contract as a way of reducing the construction cost of government projects. These contracts have the specified amount of cement tons to be used and Customs does the monitoring. Lack of monitoring these contracts may possibly give businesses involved an unfair competitive advantage over their competitors.

**Table 2: MAJOR CEMENT IMPORTERS MARKET SHARE**

| **COMPANY NAME** | **2010** | **2011** | **2012** | **2013** | **2014** |
|---|---|---|---|---|---|
| GACEM LTD | 66% | 69% | 70% | 60% | 14% |
| JAH OIL | 0 | 5% | 6% | 11% | 23% |
| SALAM COM | 16% | 14% | 12% | 10% | 30% |
| OTHERS | 18% | 12% | 12% | 19% | 33% |
| **TOTAL** | **100%** | **100%** | **100%** | **100%** | **100%** |

*****_Jah oil started cement business in 2011._

The table above depicts the market shares of major cement importers (in The Gambia) for the period under study. There existed a monopoly situation in all the years under study as defined by section 31 of the Competition Act 2007**,** which says that a firm with 30% or more market share in a particular sector is deemed to be in a monopoly situation. **GACEM** enjoyed a monopoly situation from 2010 to 2013 with market share of **66%, 69%, 70%** and **60%** but lost its monopoly to **SALAM** in the second quarter of 2014. During this period, **SALAM** had **30%** of total import while **GACEM** has **14%** of the total imports.

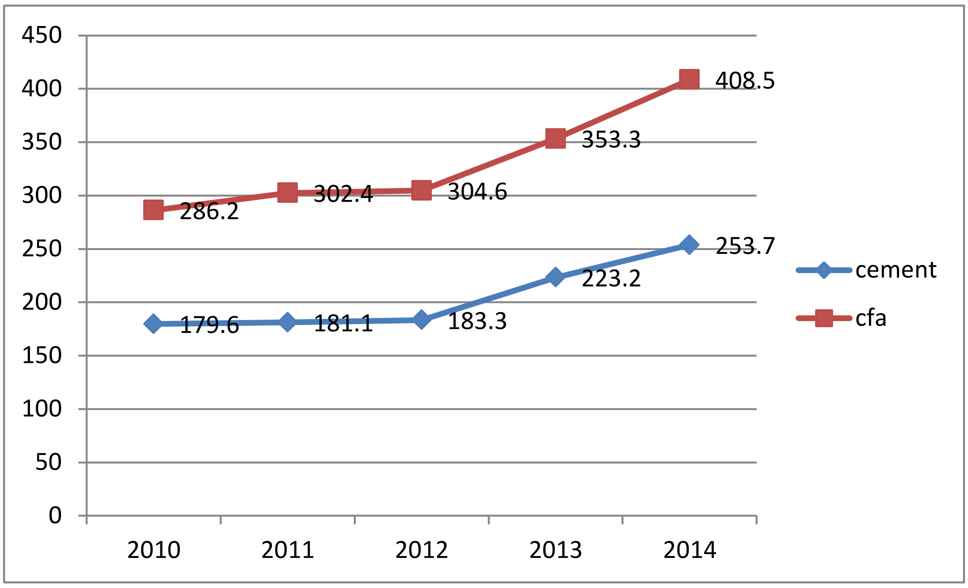
Small dealers in the sector are considered as "others" in the table above, and they are mainly Basiru Touray, Muhammed Sillah and sons, Bimex, M.P trading, Narendra Gidwani etc. The collective market share of small dealers has been increasing over the years led by the performance of Bimex and Basiru Touray, most especially in the first and second quarter of 2014 (33%).

**MARKET CONCENTRATION**

Market concentration is to identify how many firms account for the majority of the product that is produced within a given market, the fewer the number of firms that produced or distributed majority of the product produced within a market the more concentrated a market is.

The market concentration was calculated using the Herfindahl-Hirschman Index (HHI). The computed Concentration Index was, **4,692** for 2010**, 5,007** for 2011**, 5,096** for 2012**, 3,887** for 2013**, and 1,734** for the second quarter 2014. According to HHI, a concentration index of above **1,800** is considered high. The theory suggests that, high market concentration leads to limited competition and inefficiency thus there is higher chance of collusion and abuse of dominance. The cement industry had been highly concentrated but the reduction in the level of concentration to less than 1,800 in the second quarter of 2014 is an indication of the market being more competitive but still calls for close monitoring.

**RELATIONSHIP BETWEEN AVERAGE ANNUAL CEMENT WHOLESALE PRICE AND AVERAGE ANNUAL EXCHANGE RATE (CFA)**




**Data source**: *Central Bank of the Gambia (Average annual wholesale price of CFA) and MOTIE (average price of cement)*

The study revealed that, about 86% of cement consumed in The Gambia during the period under study was imported from Senegal whose currency is the CFA.

The graph above indicates that there is a positive relationship between average annual price of cement and the average CFA exchange rate, but the average annual percentage change in price is higher than the percentage change of the CFA. The CFA appreciated against the dalasi on an annual average of 5.5% while the price increased by 9.4%. It also shows that, there has been a continuous increase in both the average annual price of cement and that of the CFA from 2010 to second quarter of 2014.

The importers usually forward the appreciation and availability of the CFA as the reason for the price increment. The analysis revealed that despite the positive relation between the price of cement and the appreciation of the CFA, the percentage increase in price is 3.9% higher than the annual percentage appreciation of the CFA against the dalasi.

**FINDINGS**

These findings are based on the response from questionnaires, interviews and validation meeting with the main cement companies namely, Gacem, Salam, Jah Oil and Touray Brothers.

- The study did not find any evidence of anti-competitive practices in the cement industry but there are allegations of consumer protection violations.
- The pricing of the commodity was determined mainly by market forces of demand and supply.
- Insufficient local capacity, depreciation of the dalasi against the CFA franc, scarcity of foreign exchange are the causative factors for the frequent increases in the price of cement over the years.
- The continuous depreciation of the dalasi against the CFA makes cement import expensive, thus resulting in increases in both its wholesale and retail price.
- The scarcity of the CFA makes it difficult for importers to order cement in a timely manner to meet the demand. Delays in procurement result in scarcity of cement now and again.
- Had The Gambia been endowed with the major inputs for manufacturing cement and/or having a producing plant as in Senegal, the frequent shortage of cement and the resulting price hikes would not have been experienced.(see annex 1 and 2)
- During the early stages of the study there was a significant price hike in cement (April 2014) and depreciation of the Dalasi and the border closure were said to be key factors responsible.
- Jah Oil Company has a cement factory in Basse and is the main supplier of local bagged cement in the up-country (Tiger Cement)

- At least 90% of the cement sold up-country is either from Jah Oil Company or imported from Senegal as other brands like Salam and Gacem are almost nonexistent
- According to the major cement dealers (bulk cargo) are not prioritized by the GPA. Thus, they normally exceed the number of allowable days (5) to clear their goods and in the process incur demurrage. The demurrage charged by GPA affects the final price.

**DISCUSSION OF FINDINGS**

There are only three local companies with cement bagging plants, thus making the cement market concentrated. These companies have different time enjoyed monopoly positions. The high market concentration and monopoly do not necessarily mean anti-competitive practices exist in the industry. In fact, the cement industry is now more competitive than ever before. With the three major players competing for the greatest share of the growing consumer market, price wars among other are the order of the day. The frequent scarcity of cement resulting from supply not matching demand, leads companies to capitalize on their competitor's shortages to hike their prices now and again.

**CONCLUSION**

The study found no evidence anti-competitive practices in the cement trade but there are allegations of consumer protection violations which the Commission is currently looking into. The factors preventing more private involvement in the cement industry need to be looked into by the relevant authorities so as to make it more attractive for potential investors. More new market entrants will help reduce the market concentration, prevent monopoly and lessen the likelihood of any form of anti-competitive practice in the future.

The study has established that prices have been lower when cement is readily available in the market.

The Commission will closely monitor the industry to ensure that no anti-competitive practices are engaged in to the detriment of the consumers and the economy.

## Annex 1

## THE AVAILABILITY OF RAW MATERIALS NEEDED IN THE GAMBIA TO SUPPORT CEMENT PRODUCTION.

**RAW MATERIALS NEEDED**

Calcium, silicon, aluminum and iron constitute important ingredients required for cement production. Calcium is amongst the most important requirements mainly produced from limestone, cockle shell, marls etc. Consequently, abundant deposits of limestone are very much required for cement production.

**AVAILABLE RAW MATERIALS IN THE GAMBIA**

Geological investigations to date have not indentified significant limestone deposits to support cement production. Current geological information has indicated isolated findings of calcareous sandstone (calcium bearing rock) in the river bed at Walli kunda and the creek banks at Niji and Mini Miniang bolongs. Further geological investigations are required to establish occurrences of extensive deposits of limestone.

Calcareous cockle shell occurrences are found mostly in the Western Part of the country. Further investigations could help establish more extensive deposits.

The Gambia is endowed with substantial clay, sand and sandstone deposits with potential occurrences of other necessary ingredients.

An in depth geological information is required to help establish mineral deposit occurrences. The latest geological map of The Gambia has indicated potential mineral resources occurrences which require detailed exploration.
It is part of the Geological Department’s strategic plan to conduct follow-up geological surveys country wide to assess mineral resource occurrences with a view to increase the resource base of the Gambian economy.

Proponents of establishing a factory for the production of cement in The Gambia should be prepared to depend on imports for greater percentage of the raw material requirements.

It is strongly recommended that reputable stakeholders which include the GCCPC assist the Geological Department in the drive to promote investment in the geology and mineral sector. Investment in this sector could go a long way contributing effectively to poverty reduction.

**Source:** ***Geology Department, February 2015***

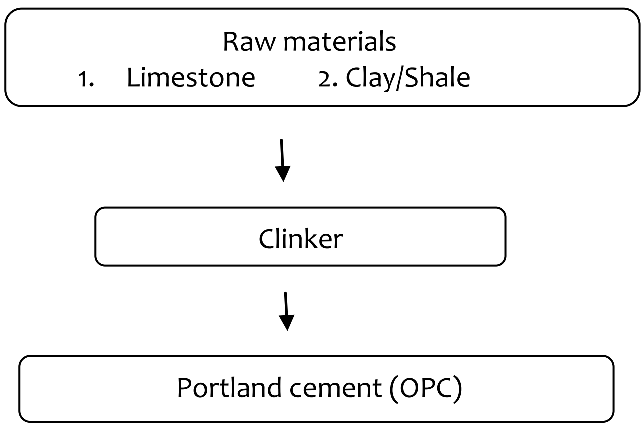
**Annex 2**

**CEMENT PRODUCTION PROCESS**

The first stage in the processing of raw limestone for any use is quarrying and crushing, after which it may used for certain purpose. The second stage is where crushed limestone is mixed with other additives such as clay (shale), sand, and iron ore and ground together and then heated at very high temperatures to produce clinker or (higher grade or higher unit-value limestone).

At the third stage clinker is ground and mixed with a small amount of gypsum to produce the general-purpose Portland cement or Ordinary Portland Cement (OPC). For instance, the production of OPC contains 95% clinker, while Portland composite cement, such as Pozzolanna Portland Cement (PPC) can contain 40- 20% clinker. Hence, clinker is the biggest single commodity cost in the manufacture of cement, accounting for up to 50 per cent of the production expenses, especially imported clinker whose price is affected by currency fluctuations.

**Figure 3: A flow diagram of cement production**



**Annex 3:**

**IMPORTS OF CEMENT FROM 2010-2014**

| Date | Cost, Insurance and Freight (CIF) (D'000) | Price/Bag | Import volume (Metric tons) |
|---|---|---|---|
| 2010 | 301,354 | 179.6 | 161,187 |
| 2011 | 323,660 | 181.1 | 104,829 |
| 2012 | 412,352 | 183.3 | 164,502 |
| 2013 | 375,517 | 223.2 | 119,330 |
| 2014 | 529,919 | 253.7 | 48,908 |

**DATA SOURCE: GBOS**

* ***PLEASE NOTE THAT THE 2014 VALUES ARE STILL PROVISIONAL***

**REFERENCE**


- *Competition issues in the cement sector of Botswana (ACF, November 2012)*
- *The dynamics of competition and trade in the cement market in Kenya (Competition Authority of Kenya)*
- *Competition Issues in the Namibian Cement Industry (ACF project, 2012)*
- *Competition dynamics and regional trade flows in the cement industry: the case of Botswana, Kenya, Namibia, South Africa, Tanzania and Zambia* (ACF, 26 November *2013)*