03 October 2018: Building materials in La Réunion and Mayotte

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Finding major price discrepancies with Mainland France,
the Autorité is issuing an opinion to the government,
in which it makes several recommendations

As part of the fight against high living costs, the French Minister for Economy and Finance submitted a request to the *Autorité de la concurrence* for an opinion on competition in the building materials markets in La Réunion and Mayotte.
The referral follows a proposal by MPs E. Bareigts and D. Fasquelle in December 2015, which was then taken up by the Lurel report of March 2016. In its opinion, the *Autorité* proposes solutions to reduce the cost of building social housing – a sector under pressure due to demographic pressure – and public civil engineering structures, such as the coastal road in La Réunion.

A worrying observation: building material prices are 39% higher in La Réunion and 35% higher in Mayotte than in Mainland France

Building materials are those used for constructing or rehabilitating housing and include cement, aggregates, façade rendering, structural timber, roofing sheets and ceramic tiles.
Joining the work already carried out by the *Observatoire des prix des marges et des revenus* (La Réunion Observatories of Prices, Margins and Revenues, OPMR) and the French Directorate General for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF), the *Autorité* noted that, on average, the prices of building materials are 39% higher in La Réunion and 35% higher in Mayotte than in mainland France, a much greater difference than that observed for the general level of prices (+ 7%).

> For more details on costs by material, see the tables from p. 10 to 15 of the opinion

These high prices have a significant economic impact as building materials account for nearly one third of the cost of building a home on these islands. By reducing the price point to that of the mainland, this cost would fall by an average of 12%. This issue is crucial in a context of housing crisis and population growth on the islands concerned.

1-REASONS FOR THESE PRICE DIFFERENCES

In the French overseas departments and regions (*départements et regions d'Outre-mer*, DROM), the small size of the markets and their remoteness from the main sources of supply are natural barriers to achieving prices similar to those observed in mainland France.

However, these specific features alone are not enough to explain the wide price differences between mainland France and the French overseas departments and regions. Other factors also explain this discrepancy, such as transport, storage difficulties, construction regulations and the high degree of concentration in some markets.

• *Transport and storage: important cost items*

Given that the vast majority of building materials are imported (380 million tonnes in La Réunion in 2014), transport represents a significant part of the cost, especially as the materials are heavy and bulky.

But once there, another problem arises: storage. The economies of the French overseas departments and regions are facing the common problem of land shortage, which results in a lack of storage facilities, leading to a surge in commercial rent that has a knock-on effect on the price of materials.

For example, storage facilities in Mayotte are offered at rents of around 25 euros/m^2, compared to 7-10 euros/m^2 in the inner suburbs of Paris.

The *Autorité* also found that some companies hold land without using it, causing a freeze in land and a rise in its cost.

• *Standards not suited to specific overseas requirements*

At the end of the *Autorité's* examination, it appears that the technical constraints of construction sites and the standards imposed are high and sometimes unsuited to the ways of life or tropical climate of these islands, increasing the cost of construction.

For example, standards for sound insulation seem of little relevance in tropical areas where the doors and windows of houses without air-conditioning can remain open for much of the day due to the mild climate.

Requiring the materials used to be certified causes the overseas regions to become very dependent on European imports and imports from Mainland France in order to comply with EC or NF certification requirements. As a result, many imported products must go through the European Union in order to obtain certification there.

- *Markets highly concentrated around integrated groups*

The investigation revealed that in La Réunion and Mayotte, a limited number of players (oligopoly) operate in the material supply and distribution channels. These operators are also integrated, i.e. present at all levels in the value chain, from manufacturing to distribution – a situation that does not predispose to strong market competition and makes it difficult for competitors to increase their market shares.

In La Réunion, local or national brand building material distributors and DIY shop operators are few in number.

Similarly, in Mayotte, some importer-distributors are present at every step of the value chain.

The low level of competition can be observed in the levels of mark-up of different building materials. In La Réunion, they can represent up to 80% or even 100% or more, according to a study by the Regional Directorate for Business, Competition Policy, Consumer Affairs, Labour and Employment (*Direction des entreprises de la concurrence, de la consommation du travail et de l'emploi*, DIECCTE). This means that the mark-up rates for cement can be as high as 90% and are 80% on average for ceramic tiles (for more details, see § 186 to 193).

2-THE AUTORITÉ'S RECOMMENDATIONS

Simplify standardisation and certification

- ***Adapt standards to local constraints***

While several actions have been taken by the public authorities, it is necessary to carry out an ambitious review of the standardisation system in order to adapt the standards to these areas.

➡	The *Autorité* suggests analysing both how appropriate a standard or regulation is for overseas and its effectiveness in relation to the specific characteristics of the La Réunion and Mayotte islands. At the end of this analysis, a decision will be made as to whether it should be kept, changed or removed.

- ***Facilitate certification by equivalence and on-site certification***

In the absence of local material certification bodies, the use of EC or NF certified materials reinforces La Réunion and Mayotte's dependence on imports from the mainland or the European Union, limiting the offer of potentially cheaper foreign products and the use of local materials.

➡	The *Autorité* therefore suggests setting up a system of certification by equivalence based on the model of a table of correspondence between EC-standard products and foreign products deemed to be of equivalent quality. This solution has the advantage of reducing manufacturing and transport costs and facilitates the use of imports in the immediate regional area. Similarly, the *Autorité* would like for materials to be able to be certified on-site by establishing national certification offices locally and accrediting local structures capable of carrying out performance tests.

Acting on the market structure

- ***Bringing in new players and strengthening small operators***

A market's ability or inability to welcome newcomers plays an essential role in price formation, as the Mayotte and La Réunion cement markets and the La

Réunion wood market demonstrate. For instance, in La Réunion, the arrival of a third cement importer led to a fall in sales prices. In the wood sector, the development of “small importers” over the last three years has also led to a decline, albeit limited, in the prices of the main market players. Such market developments should be encouraged.

- ***Pooling storage and material procurement spaces***

Since it is not always economically viable for an operator to stock up by itself, pooling logistics, particularly for supply and storage, could in some cases be a suitable system.

➡	The *Autorité* thus recommends developing structures for pooling the procurement of building materials and storage centres for the department (for more details, see p. 59 onwards).

- ***Set up a direct cement import channel from Mauritius***

A study carried out by the La Réunion Chamber of Commerce indicated that the price per tonne of cement was €90 in Mauritius compared to €210 in La Réunion. New players who have developed in Mauritius could market cement in La Réunion, which is only 230 km away by sea.

➡	Study the development of an import route from Mauritius, focusing first of all on cement, a vital material for the construction sector, subject to compliance with European or equivalent standards (for more details see p. 58 and 59).

· ***Promote the development of local material industries***

As the vast majority of materials are imported, one solution would be to limit these imports by developing the production of certain materials locally.

➡	Developing local industries for the production of building materials would limit imports, an important factor of extra cost, and see new industries emerge that will create local jobs and know-how. In this respect, biosourced insulators and compressed earth blocks from Mayotte seem promising (for more details, see p. 56).

Promote better understanding of price formation

· ***Improve transparency on costs and prices and develop statistical information***

It is essential to improve public authorities' knowledge of markets, in particular the different wholesale and retail prices and the level of mark-up. To this end, the obligation to publish players' company accounts must be a priority. For more detailed items that are protected by business secrecy, a functional division could be implemented between the technical services and the members of the OPMR themselves, who would only have access to aggregated data.

In its opinion, the *Autorité* mentions other options, such as a price regulation for aggregates and concrete in Mayotte (for more details, see page 63 onwards).

> Consult the full text of the opinion 18-A-09 of 3 October 2018 regarding competition in the building materials markets in Mayotte and La Réunion

> Press contact: Chloé Duretête- +33 0(1) 55 04 01 20 / Email