



THE IMPACT OF ANTI-COMPETITIVE PRACTICES IN THE CONSTRUCTION INDUSTRY ON AFFORDABLE HOUSING IN URBAN SRI LANKA

13TH DECEMBER 2023

ADVOCATA INSTITUTE

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WHAT

Types of anti-competitive practices in the construction industry

Impact on affordable housing

Policies to address market and policy failures

WHY

Housing is a fundamental human right.

Information gaps:

- Structure of input markets
- Market competition and competition policy
- Impacts on consumer welfare

HOW

Literature review

Input market reviews

Key Informant Interviews

Quantitative analysis - Housing Affordability Index

LEGISLATION AND
POLICY

Oligopolistic input markets
and cross ownership

Inadequate understanding
and application of the
competition law

Protectionist trade policies

IMPACTS

Lack of awareness among
consumers

Limited choice and wait
times exceeding one year

Affordability of a 500sq ft
house is limited to people
above the 70th income
decile

POLICY
RECOMMENDATIONS

Strengthening the
competition law regime

Improving competition law
enforcement and education

Pro competitive trade policy

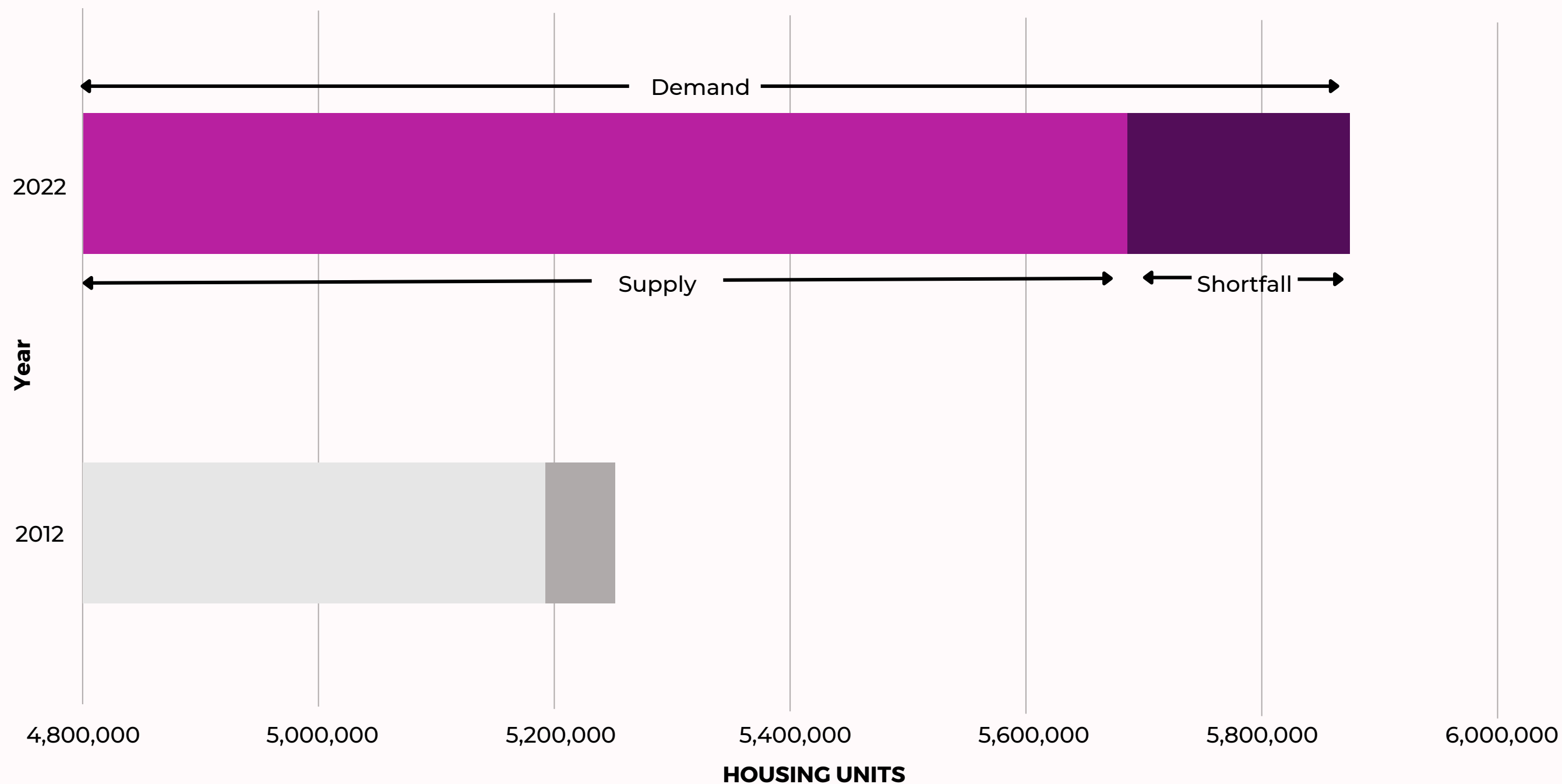
Addressing institutional
failure

3.

THE HOUSING GAP HAS INCREASED BY 218% IN A DECADE

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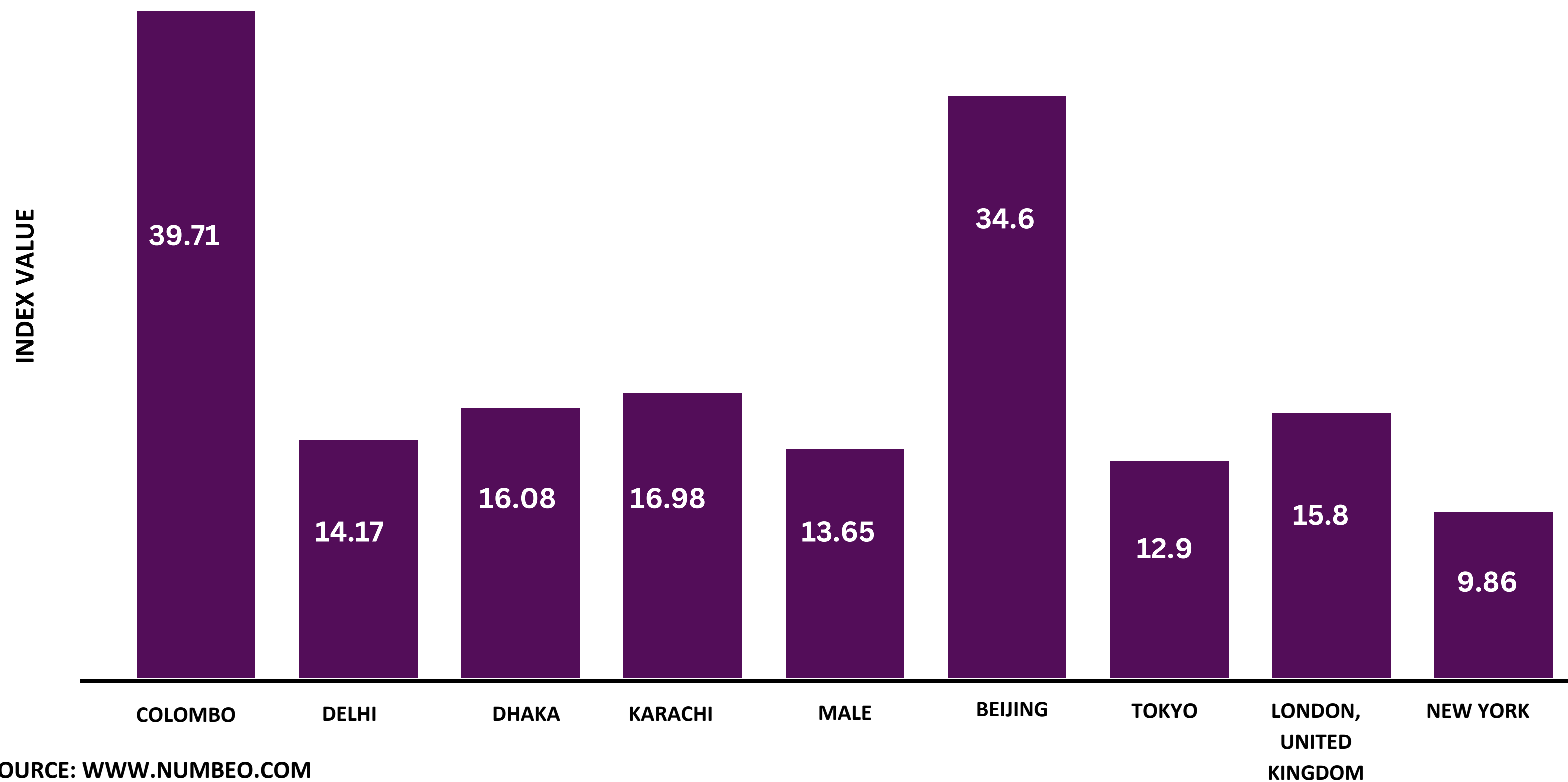
Housing Demand and Supply in Sri Lanka



**THE LARGEST
SHORTFALL IS IN
COLOMBO -
EXCESS
DEMAND OF
26,978 UNITS**

SOURCE: CENSUS OF POPULATION AND HOUSING 2012, DEPARTMENT OF CENSUS AND STATISTICS AND AUTHORS' OWN CALCULATIONS

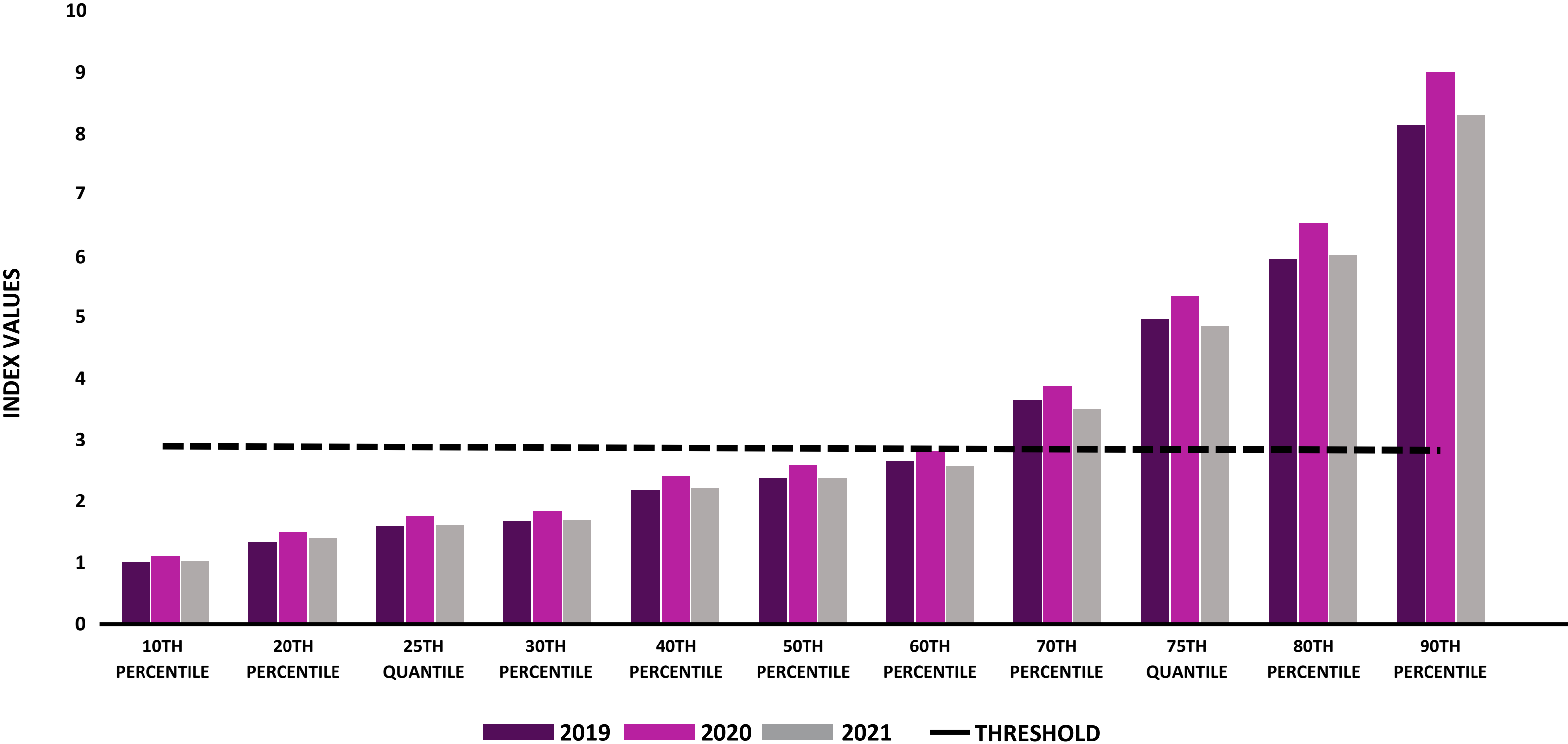
PRICE TO INCOME RATIO-2022



$$HAI_{a,t} = \frac{W_{t-a}}{P_t^H}$$

- Lifetime income based on birth cohort analysis (W)
- Housing prices (P)
 - Cost indices from CIDA
 - Housing cost estimates (NHDA)
 - Housing cost estimates from Asia Securities

HAI FOR 30-YEAR-OLDS BY INCOME QUANTILE - 500 SQ. FT. HOUSE



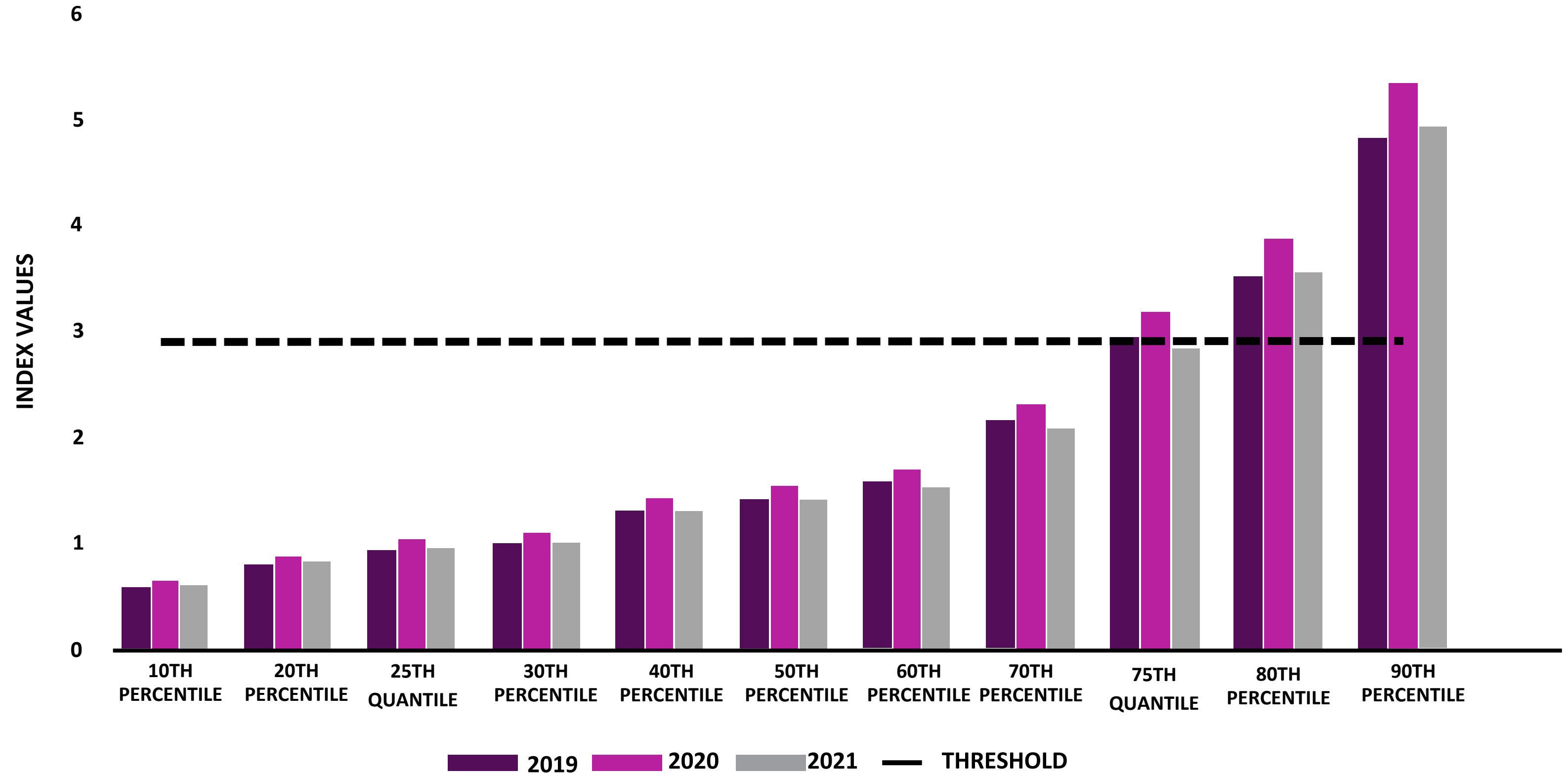
SOURCE: AUTHOR'S CALCULATIONS

7.

HOUSEHOLDS ABOVE THE 75TH PERCENTILE OF INCOME CAN AFFORD A 1000 SQ FT HOUSE

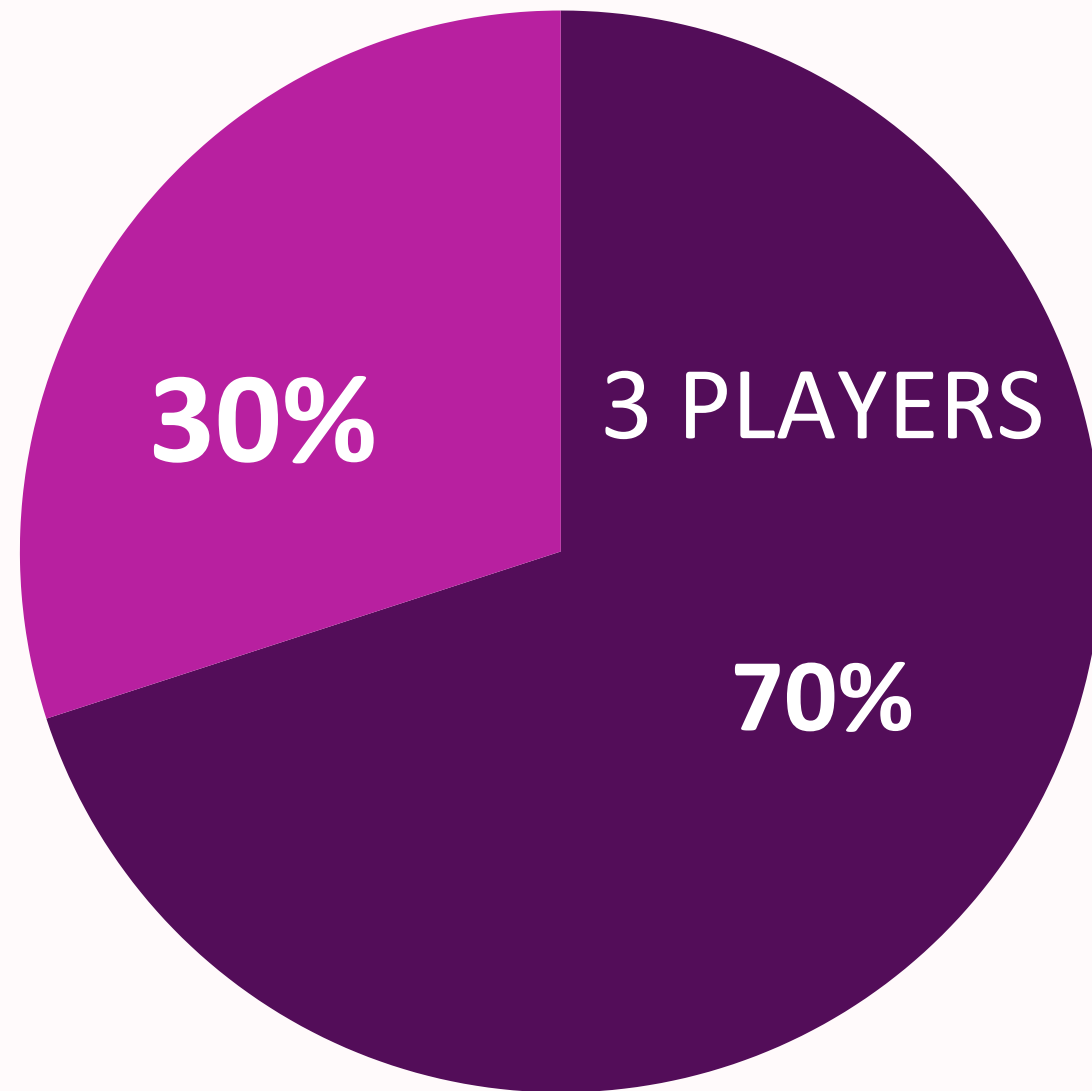
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HAI FOR 30-YEAR-OLDS BY INCOME QUANTILE - 1000 SQ. FT. HOUSE



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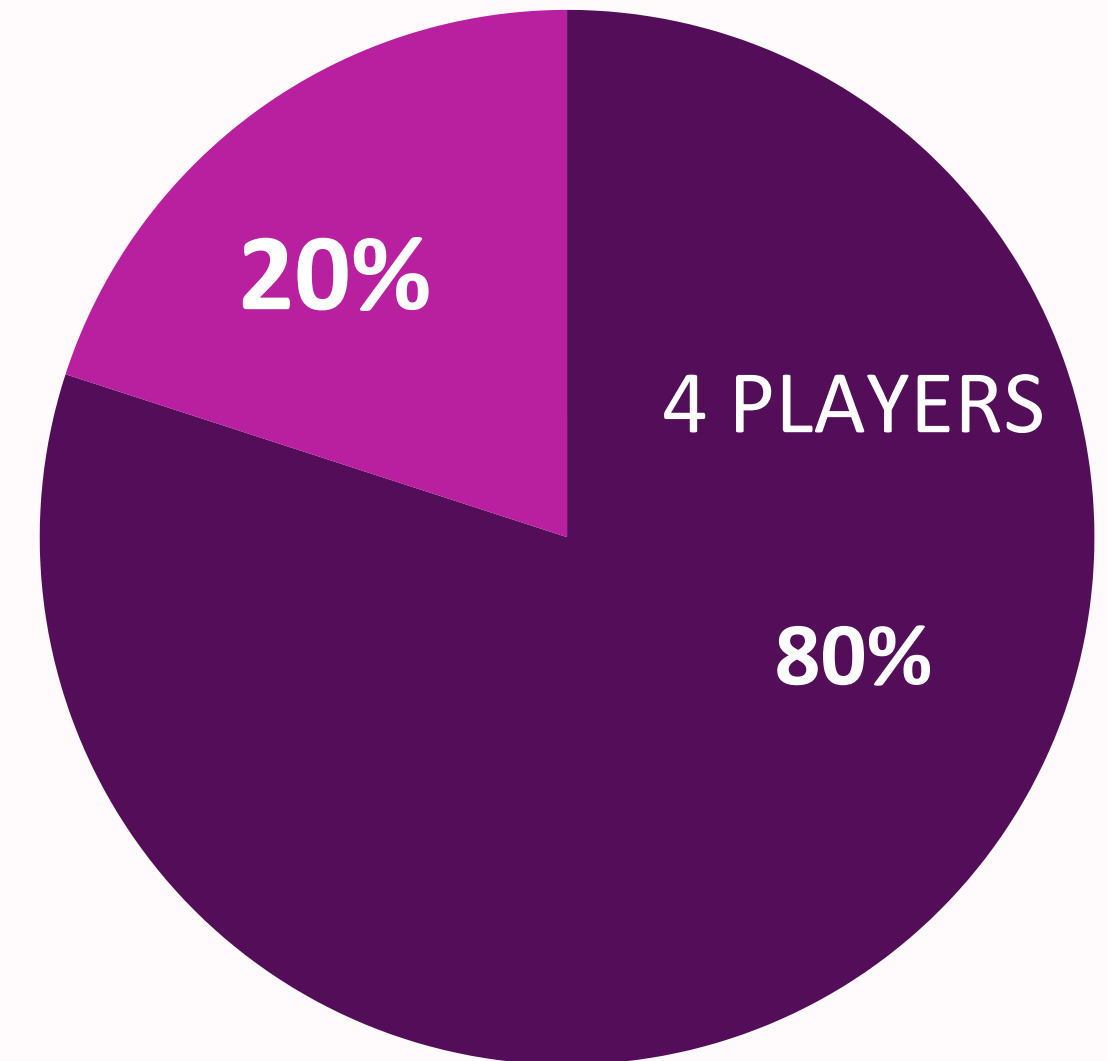
CEMENT



TILE



ALUMINIUM

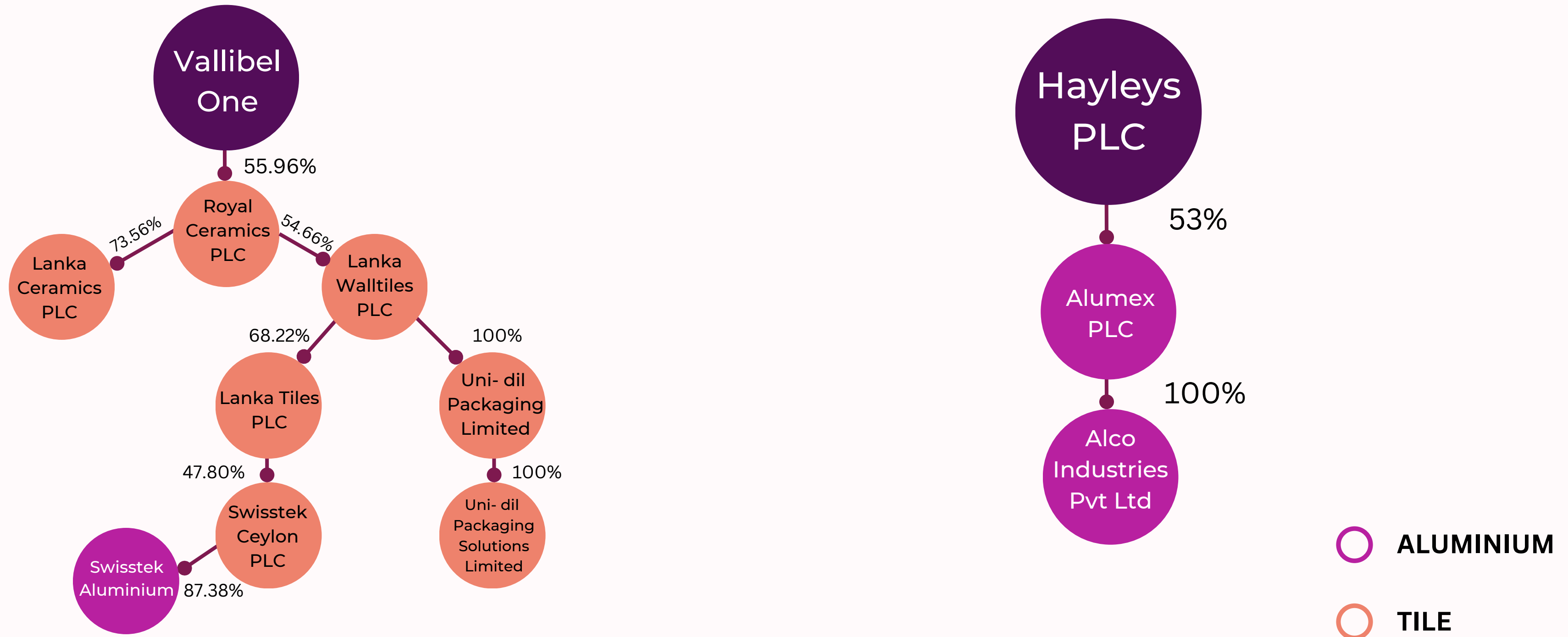


NOTE: MARKET SHARES AS AT 2022

SOURCE: COMPANY ANNUAL REPORTS, KEY INFORMANT INTERVIEWS

■ DOMESTIC MANUFACTURERS
■ IMPORTERS

A SINGLE FIRM/ENTITY OWNS 63.67% OF VALLIBEL ONE AND 51.01% OF HAYLEYS PLC



SOURCES : ROYAL CERAMICS PLC (2021); ALUMEX PLC (2021); HAYLEYS PLC (2021); VALLIBEL ONE PLC (2021)

HIGH TARIFFS

High effective tariff rates

- Total tariffs on tile imports reached 83% in 2021.
- Para tariffs such as CESS accounts for 50% of total taxes on tiles
- Cement importers are levied a CESS but local producers are exempted

AD HOC CHANGES TO POLICIES

The government imposed sweeping import bans in April 2020.

- Importers were driven out of the market overnight
- Several reversals and reinstatements of bans
- One off policies such as imports of tiles being allowed through the BMC

PROTECTIONIST LAWS AND POLICIES

Industrial Protection Act of 1949

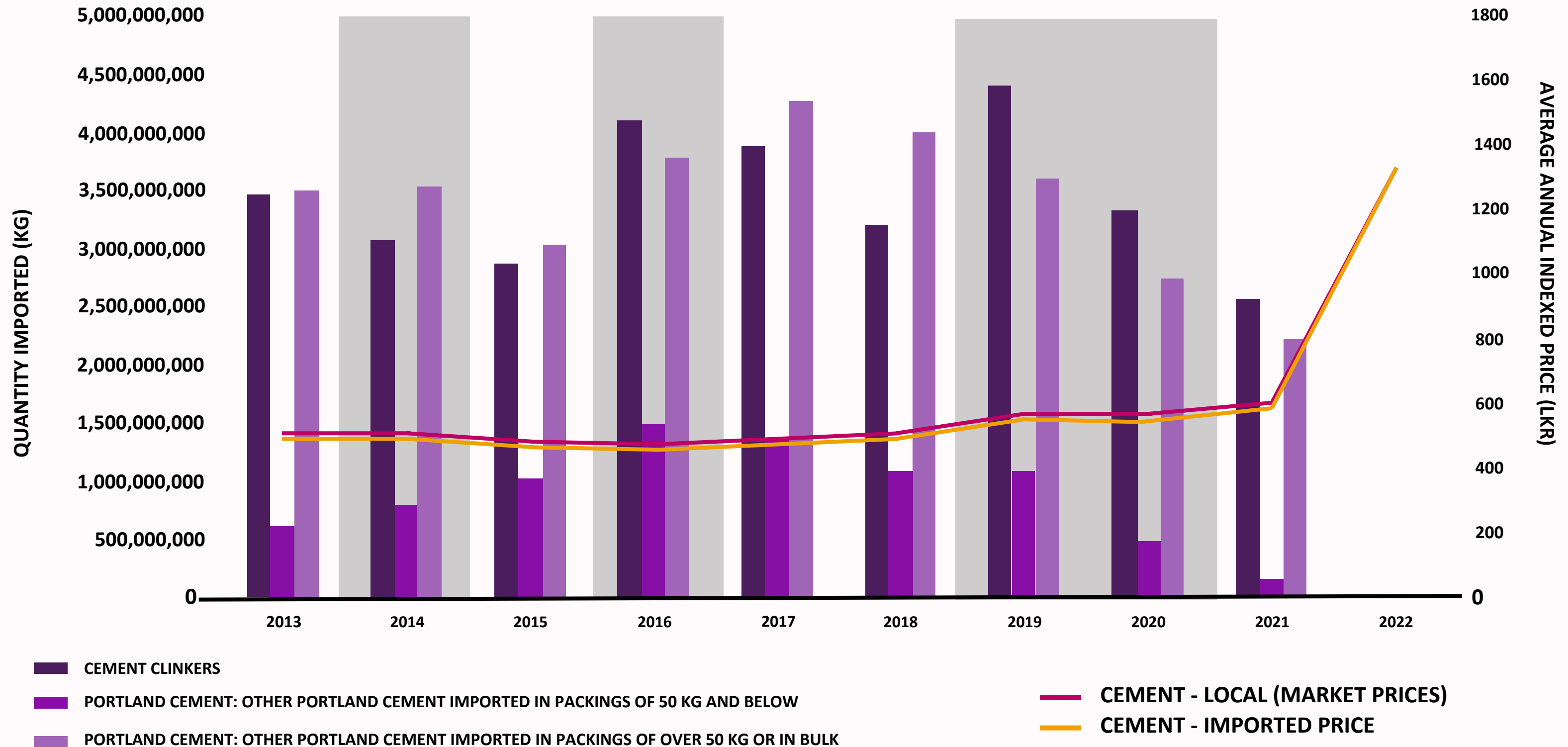
One cement factory per port*

Tiles included in the negative list under the India and Pakistan FTAs

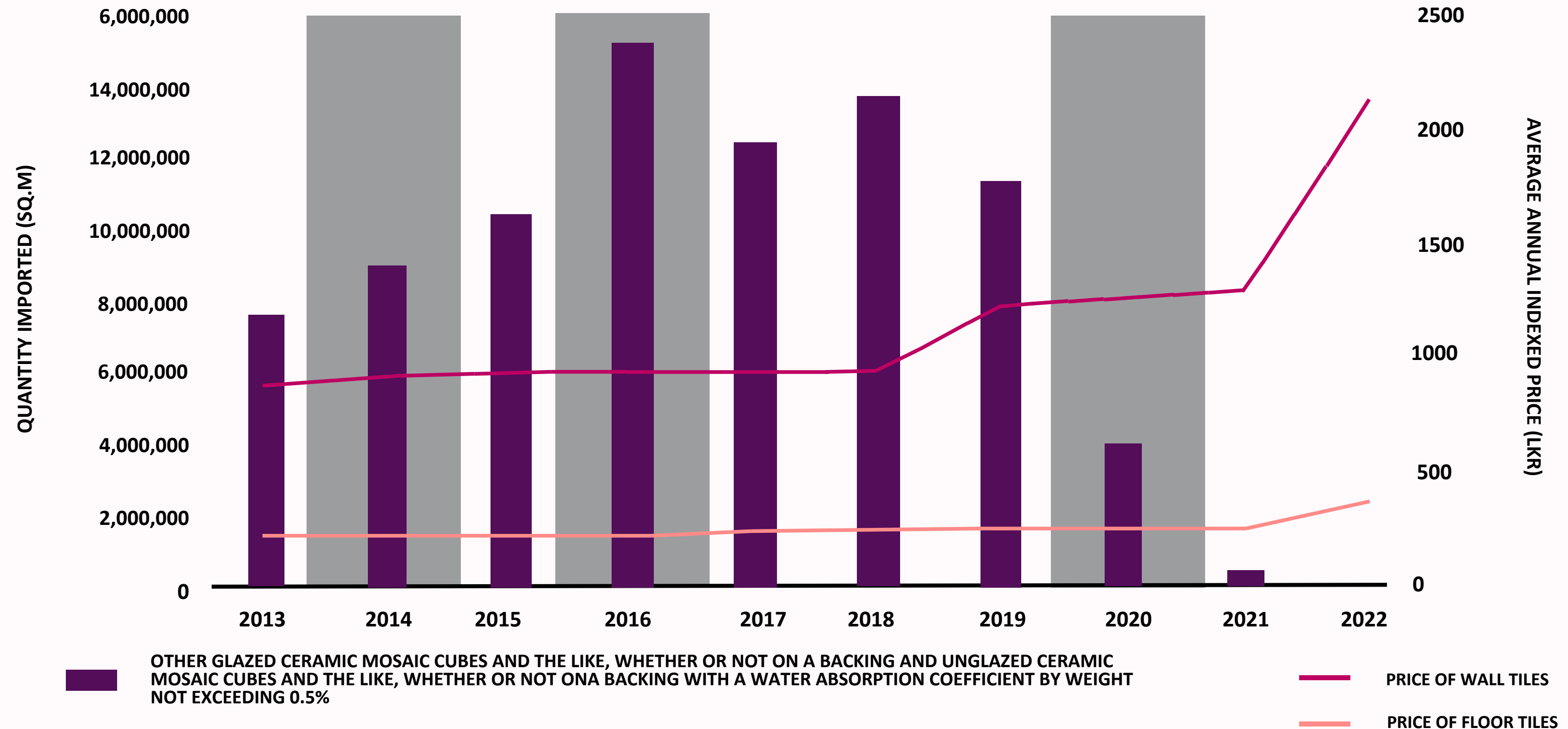
Non tariff barriers - SLSI regulations

11. CEMENT PRICES INCREASE BY > 150% (JAN 2021 - DEC 2022)

CHANGES TO QUANTITY OF CEMENT IMPORTED AND PRICES WITH CHANGES IN TARIFFS

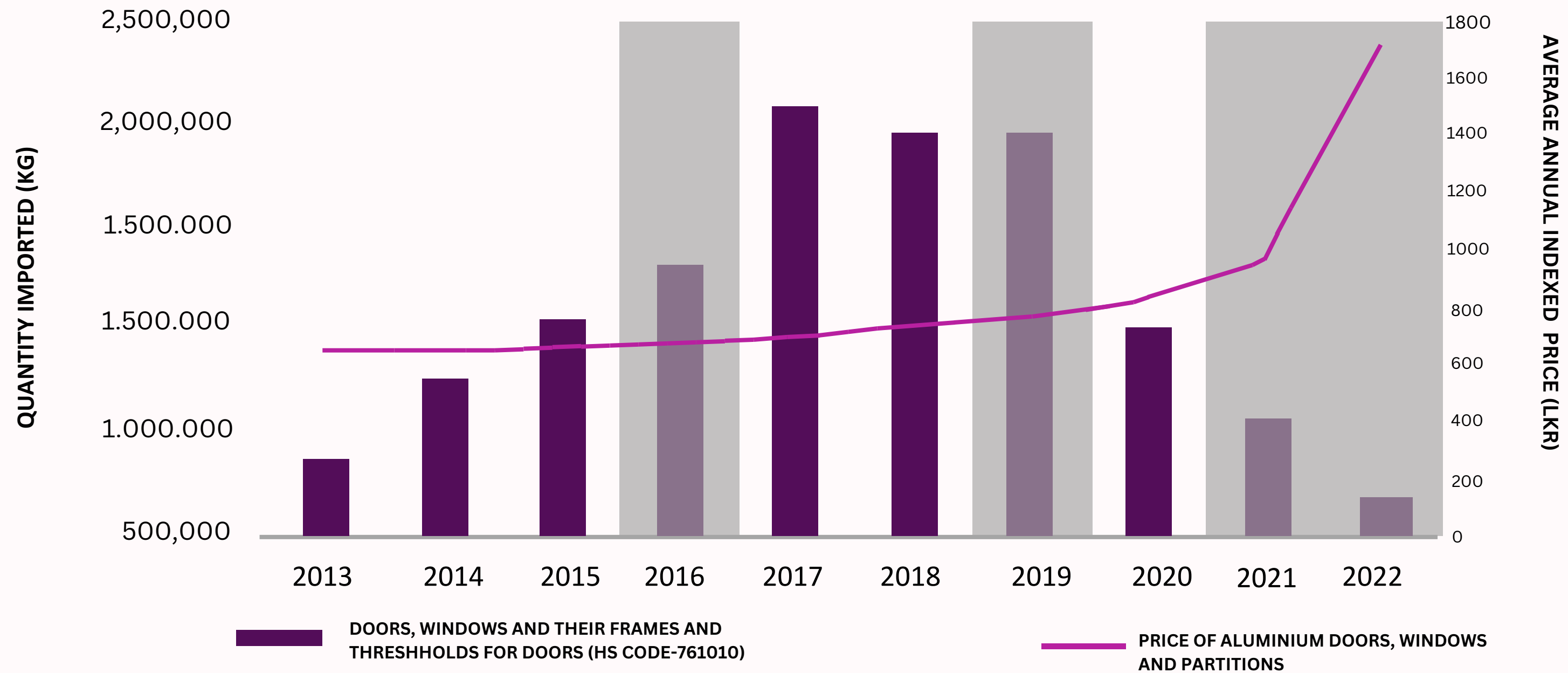


CHANGES TO QUANTITY OF TILES IMPORTED AND PRICES WITH CHANGES IN TARIFFS



SOURCES: DEPARTMENT OF CUSTOMS, CONSTRUCTION INDUSTRY DEVELOPMENT AUTHORITY

CHANGES TO QUANTITY OF ALUMINIUM IMPORTED, PRICES WITH CHANGES IN TARIFFS



SOURCES: DEPARTMENT OF CUSTOMS, CONSTRUCTION INDUSTRY DEVELOPMENT AUTHORITY

14. INEFFECTIVE APPLICATION OF THE LAW

Current law:

Consumer Affairs Authority Act, No.9 of 2003

Consumer Affairs Authority deals with the with investigative functions while the Consumer Affairs Council (CAC) plays the adjudicative role.

Preceding law:

Fair Trading Commission Act, No.1 of 1987
Consumer Protection Act, No.1 of 1979
Control of Prices Act, No.29 of 1950.



COMPETITION LEGISLATION:

Lack of awareness on the inclusion of abuse of dominance and anti competitive practices.



LEGISLATION IMPLEMENTATION:

Dormant on anti competitive issues in contrast to price control and consumer welfare issues.

Lack of independence

Resource constraints that undermine the hiring of expert professionals.



AWARENESS OF THE LAW AND KEY PROCEDURAL ELEMENTS:

Lack of transparency on key procedural elements.
General public is unaware of the scope of the Consumer Affairs Authority

TRADE POLICY

Pro competitive trade policy

Gradual phasing out of trade restrictions

Avoiding ad hoc import controls

Greater trade openness

COMPETITION POLICY

Amending the existing competition law

Competition law enforcement

Competition law education

OTHER POLICIES

Addressing Institutional failure

Addressing regulatory issues

Improving data availability

Achieving economies of scale and improving productivity in the construction industry

Reducing the cost of borrowing and access to finance