



**INDEPENDENT CONSUMER & COMPETITION COMMISSION**

## **DETERMINATION**

**APPLICATION FOR CLEARANCE OF ACQUISITION OF ALL ISSUED SHARES  
IN THE CORPS (PNG) LIMITED**

**BY**

**G4S INTERNATIONAL HOLDINGS LIMITED ('G4S')**

Application Lodged Date : 19<sup>th</sup> April 2011

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## 1. Background

### 1.1 *Parties to the Acquisition Proposal*

This Determination relates to the application by G4S International Holdings Limited (G4S) for clearance of its proposed acquisition of all the issued shares in The Corps (PNG) Limited, a wholly-owned PNG based subsidiary of The Corps of Commissionaires Management Limited, under section 81 of the *Independent Consumer and Competition Commission Act 2002* ('the Act').

**G4S International Holdings Limited (G4S)** – is a company incorporated in England and Wales with company number 547863, whose registered office is at The Manor, Manor Royal, Crawley, West Sussex. It is part of the global G4S network, which carries on private security businesses in more than 125 countries and 625,000 employees. G4S has operating offices in Port Moresby, Lae, Goroka, Madang, Mt Hagen and Rabaul. G4S carries on a private security business in PNG through its subsidiary G4S Secure Solutions (PNG) Limited. Private security services provided by G4S in PNG include manned guarding, supply and installation of security systems (for example, alarms and GPS tracking equipment), cash in transit and secure monitoring and response services.

G4S initially acquired Protect Security Services, which had been merged with Securimax some two to three years ago. The parties to that acquisition did not seek any clearance from the Commission. While there is no mandatory legal requirement to seek formal clearance, the Commission can take legal action to prevent the transaction if it believes that the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market. Parties to much more significant transactions have considered it prudent to seek the Commission's views on competition, as this applicant has done.

The Commission considers that through the acquisition of Protect Security Services then, G4S is likely to have acquired other subsidiaries (Pacom Communications, hereinafter Pacom) that operate in other related markets where security firms source their technological inputs to provide their services in the market.

The Commission notes that Pacom Communications, prior to the acquisition by G4S, was a PNG company dedicated to the communication industry in Papua New Guinea through the provision and sale of high quality communications equipment and services not only in the urban areas but also in the more remote areas of PNG. A key competitor for Pacom was TE Services Limited however it is small in scale compared to Pacom. It is understood that Pacom is now subsumed into G4S.

The acquisition discussed here has particular relevance to this application in terms of the acquisitions that are happening in PNG within a relatively short span of time, and the potential anticompetitive effects that are likely to arise from these acquisitions, including the current one, by G4S, for the whole market within Papua New Guinea.

The Commission's rights in relation to the acquisition by G4S of Protect Security Services

are, of course, preserved, as no clearance was sought in relation to that acquisition.

**The Corps (PNG) Limited** – is a subsidiary of The Corps of Commissionaires Management Limited, which provides security services in the United Kingdom. The Company was incorporated in England and Wales with company number 0110779 whose registered office is in London. The Corps (PNG) Limited also carries on private security business in PNG and provides manned guarding, cash in transit, and secure monitoring and response services. The Corps (PNG) Ltd and The Corps of Missionaires Management Limited are referred to collectively in this determination as ‘The Corps’ and The Corps (PNG) is used where necessary to distinguish it from its parent company.

## **2. Acquisition Proposal**

On 15<sup>th</sup> April 2011, G4S entered into a binding Share Sale Agreement to acquire all of the issued share capital of The Corps (PNG) Limited, but conditional upon G4S obtaining clearance from the Commission pursuant to section 81 of the Act.

## **3. Application for Clearance**

G4S applied on 19<sup>th</sup> April 2011 for clearance of the proposed acquisition of shares in The Corps (PNG) pursuant to Section 81 of the Act. The Commission is required to make a determination on whether or not to grant clearance of the acquisition within 20 days of receipt of the application, with adjustment for time taken by the applicant to respond to any information requested by the Commission, as provided by sub-section 81 (5) of the Act. The initially adjusted decision date, following the provision of such information was 20<sup>th</sup> May 2011.

The Act also allows extension of time for a determination on a clearance application if agreed by the applicant. Following receipt of additional information sought from the applicant and other stakeholders that required careful assessment, the applicant agreed to an extension of the determination date to 27<sup>th</sup> May 2011 pursuant to sub-section 81(3) of the Act.

## **4. Elements of a Clearance**

G4S applied for a clearance of the proposed acquisition under Section 81 of the ICCA Act. Section 81(3) of the ICCA Act provides that the Commission shall:

- *if it is satisfied that the acquisition will not have, and will not be likely to have, the effect of substantially lessening competition in a market, by notice in writing to the person by or on whose behalf the notice was given, give a clearance; or*
- *if it is not satisfied that the acquisition will not have, and will not be likely to have, the effect of substantially lessening competition in a market, by notice in writing to the person by or on whose behalf the notice was given, decline to give a clearance for the acquisition.*

In order for the Commission to decide whether to grant a clearance or not, it is required to assess the competition effect of the proposed acquisition against the test outlined above.

## **5. Facts & Contentions advanced in support of the application**

In arguing that the share acquisition would not have or would not be likely to have the effect of substantially lessening competition in the market, the applicant made the following claims.

First, post acquisition, the combined entity will have a total market share of at most 26.5 per cent and likely lower and will continue to be constrained in its ability to increase prices by:

- effective competition from other competitors both large and small providing private security services in PNG;
- low barriers to expansion and entry, which allow existing competitors to easily expand their operations and for new private security firms both domestic and international to enter the market;
- significant countervailing power of consumers which can switch easily between suppliers of private security services. Large customers can also credibly switch to providing security services in-house or sponsoring new entrants; and
- the availability of substitute private security services from competing firms.

Secondly, there has been, and there is likely to continue to be a sustained increase in demand for private security services in PNG. This has and will continue to provide opportunities for expansion by existing competitors in the industry and encourage new entry into the market from within PNG and by international security firms establishing in PNG.

Finally, the applicant highlighted that there will be no removal of a vigorous and effective competition or significant vertical integration.

## **6. Views from Industry Participants and others**

The Commission invited submissions from all stakeholders and interested parties as part of its public consultation process. There were a number of submissions received from the stakeholders. Most stakeholders, some of whom have extensive industry experience requested confidentiality to their submissions. Due to the very tight timeframe to hand down its decision, the Commission was not able to seek representation from the submitters of their request for confidentiality. The Commission does not discount the information that was provided to it in this determination, including information which has been held as confidential.

In general, the views from the submitters can be summarised in the following;

- 6.1. *Westpac Bank PNG Limited* – stated that whilst the transaction may result in a lessening of choice and perhaps competition in the security service provider, it

believes there will remain a sufficient number of quality operators/service providers in the market.

- 6.2. **Bank of Papua New Guinea (BPNG)** – BPNG emphasised that it does not have any issues regarding the proposed acquisition by G4S. However, the Bank highlighted that should the transaction be in foreign currency then the parties should consult with the Bank.
- 6.1. **Hanjung Power Limited (HPL)** – HPL highlighted that the acquisition will cause G4S to dominate the market. HPL further emphasised that there is a high probability but also have to consider that at times the bigger the firm, the cheaper cost and quality services they could offer. HPL strongly advised for the Commission to put in place some regulatory policies to govern the industry.
- 6.2. **Department of Treasury (Treasury)** –The department suggested that the clearance should not be granted because, in its view, the acquisition of The Corps (PNG) by G4S would result in a substantial lessening of competition in the market for packaged security services across a wide geographic area.
- 6.3. **PNG Ports Corporation Ltd** provided comments to the Commission in confidence.
- 6.4. **Patrick's Transport Pty Ltd** provided comments to the Commission in confidence.
- 6.5. **Royal Papua Yacht Club** – The acquisition will reduce competition in the private security market.
- 6.6. **PNG Namba Wan Trophy Ltd (NWTL)** – is a buyer of both G4S and The Corps in terms of security provision. The Company claimed that if the acquisition goes ahead and is controlled by G4S, it will create a monopoly within the security industry. According to NWTL, there is an increase in the demand for this industry, therefore, the planned monopoly is not good for intending entrants, existing businesses and the wider community as it will only increase costs and affect services,

## 7. Private Security Services in PNG

The Commission understands from the applicant's submission that the security industry in PNG is characterised by a large number of smaller operators and few large ones providing security services throughout PNG. The applicant stated that in 2009, there were 331 security companies registered with the Security Industry Authority. A search at the Investment Promotion Authority by the applicant reveals about 1,300 or so registered companies with the word "security" in their company names. The Commission understands that significantly fewer firms are registered with the Security Industry Authority, which has an oversight of the industry.

Apart from formally incorporated and registered security firms, other persons also engage

in the provision of very limited security services. A large number of security firms that appear to have localised operations in certain towns, project sites, etc are understood to provide a limited range of services such as manned (or static) guarding, escorts of personnel and property etc. By contrast, very few large firms such as G4S, The Corps, Guard Dog Security Services, Executive Security Services, Millennium Guards and Security Services, Pacific Corporate Security Services, and Armsec provide a wide range of security services, with varying geographic reach within PNG. It is also noted that some of these larger firms provide some services that their rivals do not provide. Of all the large firms, the Commission notes that the three largest firms in the private security market in PNG are G4S, The Corps and Guard Dog.

These security firms provide almost all the security services in the market. Of the two, The Corps is the only security firm that has a Control Room, called Class B Control Room which is capable of providing services of remote security surveillance to clients. G4S has similar systems although they are not considered to be as advanced as those The Corps has developed and uses for the provision of security services. Guard Dog has similar systems but they are very limited. The Class B Control Room is important to High Commissions and overseas companies with Occupational Health Safety standards.

### *7.1 Market Share*

While the definition of the market should ordinarily precede consideration of market concentration in terms of market shares, in this case, because of the complexity of the various activities, which are discussed under market definition below, it is convenient to discuss the concept and methodology of estimating market shares before defining the market. This has arisen particularly because an important activity of the target company was not disclosed to the Commission by the applicant. That activity is the supply, installation and maintenance of security systems. The late discovery and inclusion of that service segment has led to a reassessment of the market and market shares.

In any case, the industrial organisation literature is replete with opinion that market definition is not an end in itself, but only a means to the end of assessing the effect on competition of proposed conduct or acquisitions. Furthermore, the literature abounds with advice that the boundaries of the market, whether in its product or geographic dimension, is unlikely to be a 'bright white line', but more likely to be fuzzy at the edges. In this case, the multiplicity of business activities to be examined; the economic features of certain activities; and the variety of customers' needs render it necessary to attempt some estimation of shares of relevant activities before going to market definition.

A measure of the market share provides an indication of how well a firm is faring in the market compared to its rivals who are faced with relatively the same challenges and opportunities. It is therefore often used to determine the competitive strength of the players within the market under consideration.

Whilst the Commission considers it preferable to deduce overall market share on the basis of company turnover (a revenue measure) rather than by number of people employed, this information is practically unavailable at this stage, and within the short statutory period available to the Commission for its decision. Notwithstanding, the Commission notes the

submissions by the applicant of the overall market on the basis of employed guards showing the relative size of G4S and other players in the market placing the combined share of both firms, post acquisition at most at 26.5 per cent (and likely lower) of the total market.

However, the Commission considers that under the current market structure and post acquisition, the combined market share, is likely to be substantially higher than the applicant's estimate of 26.5 per cent, particularly when measured in terms of turnover. This is because manned guarding is a relatively low-value service and employment is not a good proxy for market share. On the other hand, higher-value services such as control room functions, supply, installation and maintenance of electronic systems and control room operations, and manned vehicle security services are greater drivers of revenue, which is a better measure of market share, although less labour-intensive.

In this instance, the Commission notes other stakeholders suggesting the actual separate shares of the merging firms could be well over the estimates provided by the applicant, and, therefore, their combined share, substantially higher, post acquisition. Some confidential estimates suggest that post acquisition, the merged entity would have a total market share of 70 – 75 per cent overall. As far as the high-value services – installation and monitoring all electronic security systems; market share is a concern, post acquisition, G4S would have a combined market share of about 60 per cent with Guard Dog holding about 30 per cent. The remaining approximately 10 per cent of the market share will be distributed among other large and small private security firms because of capacity factors.

The Commission also notes that one of the important security services that the three large firms provide is the movement of gold for their clients in PNG. It is estimated that The Corps currently moves about 60 per cent of the known demand for its clients while G4S moves about 20 per cent. Guard Dog moves around 15 per cent whilst the remaining 5 per cent is shared by other security firms engaged by clients involved in buying and selling gold. Post acquisition, the combined merged firm share of these activities would be some 80 per cent.

In terms of the carriage of weapons by its security staff, The Corps has an estimated share range of about 65 to 70 per cent in PNG. G4S has approximately 20 per cent while Guard Dog has approximately 20 per cent. Other players have no access to weapons and are not competitive in some of the high value services such as armoured guard and cash in transit services. As weapons are almost impossible to purchase now, the acquisition will make it more difficult for other companies to enter the market. This restriction on armed security staff is a significant barrier to entry for provision of services into this market segment.

In term of the provision of guard dogs, the Commission noted from the submissions that The Corps has a share of about 20 to 25 per cent; G4S has about 40 to 45 per cent, the Guard Dog has about 20 per cent while all the other security firms have around 10 to 15 per cent in total.

## 8. Commission Assessment

### 8.1 The market

For the purposes of the ICCA Act, the market is required to be defined under Section 45 (2) as:

*“...a reference to a market in the whole of Papua New Guinea for goods and services as well as other goods and services that, as a matter of fact and commercial common sense, are substitutable for them, including imports”.*

Bearing in mind the statutory provision on the definition of the market, the Commission would need to identify the relevant market for the purpose of establishing actual and/or potential competition effects in the market.

The Commission considers that the market definition would need to assess the demand side substitutability of existing products, and also the supply side substitutability of such products to determine the relevant market for competition assessment.

In terms of buyers of security services, the Commission notes that some customers require provision of a limited security service, such as only static and manned guarding services, whilst others require a combination of various security services.

There are also other customers that have their own security firm or team serving their needs. The Commission therefore considers that the customers that are likely to be most affected by the acquisition are mainly corporate customers that require a wide range of complementary security services that can be supplied by a single firm in the market. These customers normally seek such services through request for tenders from security service suppliers in the market. They seek services from one company as it is difficult and in many cases inefficient to coordinate security services from a number of different security service providers.

In terms of supply of security services, the Commission notes that the degree of provision of the whole range of services may vary considerably between one firm and another within the market. For instance some security firms supply security services in limited geographic areas in Papua New Guinea such as in a single town, project site etc. It is likely that these firms supply only static/manned guarding services rather than specialised services which require substantial investment such as manpower training, and access to appropriate security technology. It also seems likely that not many security firms are able to provide a wide range of security services to their clients, particularly those seeking a single service provider for supply of services, as may be needed from time to time depending on prevailing market conditions.

As discussed above, most security firms in the market appear not to supply the whole range of services. The Commission notes that larger firms, G4S, The Corps and Guard Dog are the only firms having the capability and necessary resources to provide a wide range of services in competition with each other to service the corporate customers. Those firms are also the largest providers of electronic security system installation and servicing that few

other security firms are currently providing in the market.

The extent of competition for the provision of these services from other firms will be determined by many essential factors, such as their economies of scale and scope, including access to customers, ability to overcome barriers to entry into provision of some of these products/services, and the reliability, effectiveness and efficiency of their service and product range available to compete with the major players.

In considering market definition, the starting point should be the activities of the target i.e. the company being acquired. In this case, the target carries on all the activities which are also carried out by the proposed acquirer. In that sense therefore, the area of 'overlapping services' is the range of services provided by the target.

While the starting point for competition analysis is the 'aggregation' of those 'overlapping' services, it may sometimes also be relevant to take account of services which are not overlapping, to the extent that any ability of the merged firm to raise price or reduce service levels in such services is enhanced as a result of the proposed acquisition. Because of the ability of the merged firm to offer such a package of the full range of security services over a larger geographical area, the combined range of activities of the proposed acquirer and target and the geographic space over which they would be offered may well be relevant in market definition. However, in including such 'non-overlapping' services, care must be taken to clearly identify any competition consequences.

The ability of other players in the hypothetical market to offer the services identified as comprising the market, given an appropriate price incentive, is also relevant, as that is relevant to the component in the statutory definition of 'substitutability' required to be considered 'as a matter of fact and commercial common sense'.

Incremental expansion of activities and geographic areas of operation has occurred in the past in this industry and such supply side substitutability needs to be taken into account in the definition of the market.

The Commission, upon its assessment, notes that the private security services market in PNG can be categorised into eight (8) different service activities or market segments and they are:

- i. Building entry guards or static guards;
- ii. Armoured vehicle cash/people delivery;
- iii. Guard dog provision;
- iv. Computer security;
- v. Event Security;
- vi. Document security;
- vii. Vehicle security patrols; and
- viii. Alarm monitoring, installation, and alarm vehicle dispatch, including Control Room services.

The eight market segments can also be broken down into two further categories, namely,

- Low value services – (i), (iv),(v) and (vi); and
- High value services – (ii), (iii), (vii) and (viii)

Furthermore, within each value-categorised group of services, obviously there is a gradation of value for the range of services offered.

The low value services are provided by a number of large and small security firms while the high value services are mainly provided by G4S, The Corps and Guard Dog. The three large security firms also provide low value services, however, the selection and combination of these security services is done based on customer's request thus taking into account the price that is offered by different security firms in these low value services. The large security firms can cross subsidise their low value services from their high value services, thus making a more compelling case for a bundled service, than for a client separating high from low value services and using two security service providers. Likewise, some of the small security firms, according to the Commission's analysis, can also provide some of the high value services, however, that depends on the resources (equipments such as guns, dogs, etc), financial capacity, and the skills and technical knowhow, for consultations, repairs and maintenance and basic technical skills to install and monitor all electronic security systems, for instance, alarms, radio and phone monitoring. Depending on the customer's needs this can restrict the competitive position of the small security firms. Accordingly G4S, Guard Dog and The Corps, which have all the resources to provide these high value services, account for the predominant proportion of supply in this sector.

The Commission, therefore, considers that the market for consideration includes market segments for low value services and high value services.

On the demand side, the picture is more complicated. Most customers require one or other services, thus having the benefit of a wider range of potential suppliers. However, this scenario relates to the lower-value services.

The bulk of the value of corporate and government customers' requirements relate to multiple services, usually where some required services are beyond the scope of the myriad of suppliers of low-value services. These customers, while theoretically able to source their requirements from multiple suppliers, to obtain the best price for each service, are, in practice, limited in their options by two factors – the complexities and transaction costs of multiple contractor sourcing; and the complexities and risks associated with co-ordinating the activities of multiple suppliers in a high-risk area of their businesses which require a 'seamless' provision of security services.

Based on the above analysis, market definition can be undertaken in a number of ways. Firstly, each service type can be considered separately. Because there is some scope for multiple service provision, this does not suggest itself as a workable definition.

A second approach is to categorise the services as (a) high-value, more complex services, requiring significantly greater investment, most of which is 'sunk' i.e. having little residual value on exit for a service provider as it has limited alternative uses; and (b) low-value, less complex services, requiring relatively lower investment, a lower proportion of which would

be 'sunk', and would likely coincide with a higher labour intensity.

A third approach is to treat the market as a composite one, encompassing both high-value and low-value services, recognising that there is some 'movement' up the scale of value by some suppliers, but that such movement is very limited, because of the barriers to expansion. This approach takes account of the fact that the suppliers of high value services also supply the low value services. Under this approach, the special features of each market segment are factored into the competition assessment, so as to allow for the broadest market definition while taking account of the differential economic characteristics of the market segments. Such an approach conforms with the statutory requirement quoted above, to reflect ".... *fact and commercial common sense, are substitutable for them....* in an effort to mimic commercial reality.

On balance, therefore, the Commission considers the 'product' (in this case, a service) market definition to be the one for security services, including those as listed above<sup>1</sup>, with the important proviso that the relative economic significance of high and low value service market segments be distinguished in the competition assessment, for the reasons outlined above.

In a geographic sense, while the bulk of the players in the market are small, local, even family-owned companies, they comprise the low-value end of the market. Players in the high-value end of the market operate over a wider geographic space – often in many of the major towns and in remote mine locations. In their wider geographic operations, they also offer the 'low value' services provided by the 'local' operators. As previously outlined, the large suppliers, which service both low-value and high-value end of the market accounts for the predominant value of services. With that background, the Commission considers the geographic dimension of the market to be the whole of Papua New Guinea.

## **9. Statutory Factors taken into account in Assessing Competition**

The Commission will now assess the proposed acquisition in terms of its competition effects and whether or not the acquisition would be likely to have the effect of substantially lessening competition in the identified market, as required by the Act.

In assessing the actual and potential competition effect of the proposed acquisition the Commission is required under Section 69(5) of the ICCA Act to take into account the following statutory matters:

- [a] the actual and potential level of import competition in the market;*
- [b] the Nature and effect of barriers to entry in the market;*
- [c] the number of buyers and sellers in the market;*
- [d] the degree of countervailing power in the market;*
- [e] the likelihood that the acquisition would result in the acquirer being able to significantly and sustainably increase prices or profit margins;*

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<sup>1</sup> While there may be other security services not identified by the Commission, the listed services appear to represent the majority of services provided in the 'security services market'.

- [f] the extent to which substitutes are available, or are likely to become available, in the market;*
- [g] the dynamic characteristics of the market, including growth, innovation and product differentiation;*
- [h] the likelihood that the acquisition would result in the removal from the market of a sustainable, vigorous and effective competitor;*
- [i] the nature and extent of vertical, integration in the market.*

***[a] The actual and potential level of import competition in the market***

The actual and potential level of import competition is vital in assessing whether there are effective constraints on the incumbent firms, posed by imports to ensure competitive behaviour is maintained.

The applicant submitted that there will be no import competition that could effectively constraint the merged entity.

The Commission agrees that import competition is irrelevant to this market, in regard of low value services such as static guards, who can be sourced at cheaper local rates, but there is an element of importing relating to sourcing of alarms, CCTVs, electronic recording equipment, radios and microwave & signal transmission equipment, which may provide some competition to locally sourced equipment provision.

***[b] The Nature and Effect of Barriers to Entry to the Market***

The applicant emphasised that, given the low barriers to entry into PNG's security market, there would be nothing to prevent international security companies from establishing operations in PNG, given a sufficient price incentive, In particular:

- While the provision of security services was previously an activity reserved for citizens under the Investment Promotion Authority Act, it is no longer a reserved activity;
- While the Security (Protection) Industry Act does require all companies which provide security services to be licensed, international companies would already satisfy the relevant criteria given that they operate in other markets with similar qualifying requirements; and
- The emergence of additional potential LNG projects in PNG for example InterOil and Talisman Energy, as well as increased mining activities, provided further incentive for international security companies to establish operations in operations in PNG.

The applicant maintained that the continued threat of such entry will continue to operate as a competitive constraint on the merged entity post acquisition.

Barriers to entry could be anything that makes it difficult for entry into the relevant market. In addressing these statutory criteria, G4S submitted that there are very few barriers to entry to the market for private security services as evidenced by the large

number of private security companies currently operating in PNG.

The applicant claimed that while formal licensing of security companies is required under the Security (Protection Industry) Act, administered by the Security Industries Authority, such licensing is readily obtainable as demonstrated by the number of licensed companies. The applicant claimed that it is aware that many unregistered private security firms operate in PNG.

The applicant also maintained that there is an adequate supply of staff and premises for private security services in PNG and also given the dynamic nature of this market, the current level of economic growth in the resource sector and the continued importance of security for any business that operates in PNG, there are likely to be clear incentives for firms to enter the market in future.

The Commission is not entirely convinced with the argument that international security companies would enter the market and set up operations in PNG due to the LNG project and other mining activities. The Commission is not aware of any international firms entering the market in recent times, other than G4S through acquisition of a PNG based player. Although there has been new entry into the market, especially by domestic security firms that are going into joint venture arrangements to provide security services to these big projects, any potential competitor would face the challenges of overcoming access to customers and other barriers to entry prior to being able to enter the market and become an effective competitor.

The Commission observed that in general, the barriers to entry into the market encompassing both the low and high valued services, are significant because of financial and technological factors. The new entrant will need large funding to set up and compete with the current players in this market across the range of services. Small security firms will also need the financial capacity to obtain a license to operate either within the low value services segment of the market or the high valued services market.

Furthermore, the new entrant will need skilled manpower and technological equipment such as vehicles, radios, alarm monitoring equipments, dogs, etc to be competitive. The cost of training to secure skilled manpower, particularly in the high value services could be a significant investment, and it becomes a sunk cost given the mobility of the workforce.

Nevertheless, barriers need to be assessed in terms of the expected return on investment and in terms of profitability in the context of any price rise resulting from the merged firm raising prices. In terms of the high-value end of the market, the significant sunk costs, technical know-how, lead the Commission to the conclusion that entry barriers are relatively high, even when considered in the context of expected return on investment.

Of greater significance, following the merger, the incumbents in the high-value end of the market would be well-positioned to 'discipline' new entry by reducing prices to ward off new entry. The mere knowledge of such a real risk would normally be sufficient to deter entry.

On the other hand, for the low-value end of the market, when seen in that context, the barriers are arguably significantly lower.

The barriers to expansion by existing competitors also need to be considered. For players in the low-value end of the market, familiarity with the business would be an advantage and pricing to secure business would be a factor in the context of possible price rises by the merged firm. Hence, broadly, the barriers to expansion, while not insignificant, are unlikely to be as high as the barriers to entry. To break into the high-value end of the market, however, would involve far greater risk and further 'sunk' capital investment. Access to customers would also be a significant barrier for two reasons. First, customers requiring such high-value services are likely to be more 'risk-averse' and less disposed to trust new players in this segment. Secondly, the incumbents, particularly the merging firm, with its economies of scale and scope, would be well positioned to 'discipline' expansion by reducing prices to maintain/secure business and keep out new competitors, whether new firms in the market or those seeking to 'move up' the value chain.

Importantly, the Commission was informed that international security firms would not want to enter a market where there is a dominant security firm already operating in the market. They would tend to look for other markets elsewhere so they could generate acceptable levels of profit or could become dominant. In this case, the merged entity is likely to be dominant in the private security market in PNG therefore new entry would not be a competitive constraint for the merged entity. However, the increased size of the merged entity would likely deter new entry, even from experienced international security firms, as they would see less likelihood of securing sufficient market share to be financially viable.

The Commission in its review also established that there are some barriers to entry in terms of access to inputs, such as the following:

- difficulty of access to finance due to lack of clients;
- sunk new investment costs – growth means enormous financial outlay and with restricted customer access, regulatory requirements and processes;
- the need for communications content and applications licenses<sup>2</sup> for electronic communication and access to customers;
- continued lack of provision of reliable telecommunications access and transmission services by the licensed 'network' licensees; and
- restricted access due to large competitors dominating the two market segments identified.

*[c] The number of sellers and buyers in the Market*

This factor is essentially concerned with the concentration levels in the supply and demand sides of the market.

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<sup>2</sup> The new arrangements under the National ICT Act 2010 should assist in reducing licence access through application to NICTA.

The applicant submitted that there are a large number of suppliers of private security services in PNG that will continue to constraint the competitive behaviour of the merged entity post acquisition (large and small).

According to the applicant, major customers such as banks, government agencies, embassies, international organisations and NGOs have significant countervailing power. The number of security services providers and customers in the market is likely to grow, given the dynamic nature of the market and the increasing demand for private security in PNG.

The Commission's review concluded that the private security market should be looked at with due weighting for individual market segments and/or the low valued services or the high valued services. It would be appropriate to determine whether or not different market products supplied in those segments are capable of being supplied by other firms, and whether collectively, will be able to constraint the competitive behaviour of the merged entity.

The applicant maintains that given the number of suppliers in the market and the alternative sources of supply, customers are readily able to switch to other suppliers if the merged entity sought to significantly and sustainably increase its prices for private security services for a reasonable period of time.

Of significant relevance are the estimates of the market shares of relevant activities offered by competitors, comprising the market as defined. In the high-value segment, the area of greater concern in competition terms, concentration is high on the supply side. Even in the low-value segment, supply side concentration estimated by competitors is considered to be substantially higher than submitted by the applicant. In both segments, supply side concentration is estimated by competitors to be substantially higher than that estimated by the applicant.

However the market is defined, the Commission considers that the share of the merging firms is likely to be substantially higher than estimated by the applicant as labour represents a relatively poor proxy for turnover and scale, scope and the range of services supplied over a larger geographic area by the merging firms relative to their competitors suggests that larger customers, with activities spread over a larger geographic area, generate a substantially higher value of turnover, than reflected by the number of employees.

The Commission observed most security firms in PNG provide low valued services while the high valued services are provided by G4S, The Corps and Guard Dog. For the low valued services, there are a number of players in this market therefore it may constraint the competitive behaviour of the merged entity post acquisition in the low-value market segment. However, because of its capacity, scale, scope and dominance in the high-valued market segment and hence the market as broadly defined, the merged entity would not be likely to be effectively constrained by small firms operating in the low-value end as the small security firms would not be able to sustainably 'beat' the large firms' prices. On the contrary, the small firms are vulnerable to the threat being

'picked off' in terms of the larger firm manipulating prices for the low-value services through cross subsidisation from the high-value market segment to lure the customers of the small firm.

The Commission also found that if the two firms merge, the concentration of suppliers in the high-value services market would increase substantially as the merged entity would control a very large percentage of this market. The Commission concludes that in both market segments, even though there are many suppliers in the market, the behaviour of the merged entity will not be constrained.

Overall, however the market may be defined, the merged firm's share suggests that, subject to the consideration of the other statutory factors, the concentration levels of themselves create the condition for substantially lessening competition and, quite possibly the unilateral exercise of market power, although the former, not the latter is the test for clearance.

*(d) Degree of countervailing power in the market*

Countervailing power refers to the ability of the buyer(s) or the seller(s) of a product or service to by-pass a particular seller or customer in the supply chain. Where there is potentially only one supplier, the countervailing power of customers may be very small, although a large customer could, conceivably, by-pass the supplier by entering the market itself or sponsoring entry.

The acquirer highlighted that larger customers have sufficient resources to manage their own security internally, and could credibly switch security services in-house if the merged entity attempted to increase price. The applicant maintains that it is aware that a number of banks/finance companies (such as BSP, Teachers Savings and Loan Societies and Credit Corp) and mines have their own registered security companies. Numerous landowner companies (for example LABA, Hides Gas Development Corporation and New Briton Palm Oil) also have registered security firms than can manage their respective needs. The applicant claimed that such customers could sponsor a new entrant in the private security market by providing funding and expertise to enter the market.

The Commission maintains the view that buyers' bargaining power varies from individual clients to corporate clients depending on their demand for security services provided in the market. This is predominantly determined by the type of security service that is being demanded.

An individual client with low financial capacity would require low valued services compared to a corporate client with vast financial capacity. Large corporate clients such as those mentioned above would require both low and high valued services. Whilst there may be bargaining or negotiating power, this will vary markedly between smaller clients that require a single type of service to those requiring combined services. There is a degree of countervailing power that major customers have to exercise, should the parties, post acquisition, increase prices and profit margins, but that is limited to a very few customers. As explained earlier, even those customers with the theoretical ability to 'separate' acquisition of various services, face significant co-ordination and

transaction costs. Furthermore, the risk of security ‘gaps’ is a powerful disincentive to the exercise of countervailing power, particularly as setting up your own high-value security system or sponsoring a new entrant to do this takes considerable investment, and considerable time for the systems to become fully operable. On the latter the Commission would suggest a time frame of between three and nine months for the commissioning of a new high-value security system from scratch. This window of vulnerability is a considerable deterrent to the exercise of countervailing power in this market.

Quite apart from those few customers which may have theoretical countervailing power, the bulk of customers which do not have such power, but account for the overwhelming proportion of the value of security services acquired in the market, consequent upon their requirement for the ‘high-value’ end of the services and/or services over a wide geographic area, would be likely to be ‘price-takers’ rather than ‘price-makers’.

*(e) Likelihood that the acquisition would result in the acquirer being able to significantly and sustainably increase prices and profit margins*

The applicant claimed that the merged entity will not be in a position to sustain a significant increase in prices or profit margins because it will:

- Not have substantial market power in the market;
- Be constrained by:
  - Alternative suppliers in the market and the ability of buyers to switch easily to those suppliers;
  - Larger customers managing or threatening to manage their own internal security or sponsoring new entry into the market; and
- Face expansion from existing firms and new entry from both domestic and international security firms due to the dynamic characteristics of the market.

The Commission notes that there is a high likelihood that customers would like to seek the service of other security firms if the merged entity were to sustainably increase the prices of both the low and high valued services, but their options are likely to be limited. The foregoing discussion of (a) the significance of high-value service segment for market definition; (b) market concentration; (c) barriers to entry and expansion; (d) factors to be discussed in greater detail below such as the removal of a significant competitor in the form of The Corps and dynamic factors strongly suggest that the merged firms would collectively be likely to significantly and sustainably raise prices and increase profits. Because of the market share that the merged entity will have post acquisition, it is likely that G4S will have a substantial market power in both market segments.

Some level of competition is likely to continue initially in the low valued market, especially, for static guards in local areas, because there are a number of small and large firms providing the service in various locations. As for the high-value services, offered as a package across PNG, the merged entity would be in a position to sustain price and profit increases because there will only be one significant competitor (with a

much lower market share) operating in this market, albeit some other very much smaller ones. However, with market power in the high-value segment, the merged entity could influence the prices of the products in this market thus increasing its share of the low-value segment and increasing its profit margins overall.

*(f) Availability of Substitutes*

The applicant submitted that the provision of most security services is able to be readily substituted by the installation of security improvement, for example, fencing, bars, locks and other security devices. This is an effective constraint on the pricing of security services by companies in the security industry. The applicant also claimed that there are a number of firms offering equivalent private security services to those offered by the merged parties. These include major competitors (such as Guard Dog Security Services limited, Security Plus, Executive Security Services, Pacific Corporate Security Services and Armsec) and a large number of small to medium size competitors.

The Commission disagrees with the applicant's assessment. The availability of substitutes within the security market will reduce as a result of the acquisition. Other security firms do not provide such substituted products because of the low financial capacity to purchase these products/services. This is particularly relevant for the provision of a Class B Control Room, the sourcing of electronic surveillance, alarm and monitoring equipment, the installation of this electronic equipment and its integration of electronic equipment across the telecommunications networks with a Control room. As stated earlier, the three key players in the market for high valued services are G4S, Guard Dog and The Corps. If the acquisition goes ahead, there will be fewer substitutes available in the market for the relevant high-value services offered as a package over the whole of PNG.

*(e) Dynamic characteristics of the market including growth, innovation and product differentiation*

The applicant highlighted that the private security market has grown as demand (crime) has increased while police numbers have remained relatively constant. The applicant has also highlighted that in addition to the factors that are unique to PNG, the relative importance of the private security market has increased globally since the terrorist attack in the US, reflecting increased concerns about crime, theft, vandalism and terrorism.

Moreover, rapid economic growth in PNG has generated an increase in demand for private security services. Furthermore, this trend is expected to continue with private security guard employment expected to increase from 10 -15 per cent per annum in the short term at least to the next ten years.

The applicant also highlighted that the increase in demand has in turn encourage the emergence of new private security businesses and given the low entry barriers, this will provide opportunities for;

- Expansion by existing competitors in the industry; and

- Entry into the market by new private security firms either from within PNG or internationally.

The Commission considers that as the crime rate, terrorism and economic growth increases, there will be an increase in the demand to engage existing security firms to provide either low or high valued services. The demand for additional static guards in the low-value market segment will likely experience strong growth, and in addition the demand for more high-value services for alarm monitoring and vehicle dispatch will likely experience strong growth. Furthermore, there will also be an increase in the demand for private security firms to use advanced technologies to meet the more timely and higher standards and requirements of its customers. There will be an opportunity for growth and innovation in the general private security market if there is competition. If the merger were to proceed, however, the barriers to entry would be substantially raised and the deterrence to both entry and expansion would substantially lessen effective or workable competition. It would also likely deter implementation of new and innovative security services.

***(f) Likelihood that the acquisition would result in the removal from the market of a sustainable, vigorous and effective competitor***

The Acquirer emphasised that the acquisition will not result in the removal of a sustainable, vigorous and effective competitor from the market but will ensure that the competitive effects of the firm will continue to operate in the market. The applicant also highlighted that as a result of the acquisition, G4S will likely to be an effective competitor in the market as it will be able to offer a broader range of products and services in competition with other major participants.

The Commission believes that The Corps (PNG) limited provides a vigorous and effective competition in the both the low and high valued services market. The acquisition would result in the removal of a sustainable, vigorous and effective competitor. Both security firms have a stable platform from which they can develop and enhance their business. The only issue is whether the management can control the business to remain profitable. Moreover, if The Corps (PNG) limited is absorbed, it cannot be vigorous and effective as it will no longer exist in the private security market.

Within the PNG security market, import competition happens at the provincial level. G4S current has offices in Lae, Port Moresby and Rabaul while The Corps only has a office in POM. Even though the Corps does not have a physical office in Lae, it does have clients in Lae who from time to time would require the services of The Corps, In this way, The Corps provides some form of competition to G4S because of their fly in fly out arrangements at the provincial level. The Corps are not physically located in Lae while G4S has an office in other centres like Lae.

The import of “new ideas” and technologies for utilisation within the two sectors is also a form of new competition between security firms operating within PNG. The Commission notes that the Corps, being a large and key competitor could import new ideas and technologies to improve its capacity and compete against G4S. The Commission notes that post acquisition, there would not be competition between The

Corps and G4S in the provision of high valued services in the other centres. G4S will be the dominant provider as it has offices in the other centres.

Likewise, the import of new ideas and technologies will no longer be there as there would not be any competition in the importing of new ideas and technologies. G4S will be the dominant firm importing new ideas and technologies. Other small security firms in PNG are unlikely to import new ideas and technologies because of their financial capacity to import products, and their locally focused nature.

*(g) Nature and Extent of Vertical Integration in the market*

The applicant stated that in this acquisition, there will be no significant issues relating to vertical integration.

Vertical integration is a process in which several steps in the distribution of services are controlled by a single entity in order to increase its power in the market place. The Commission observed from G4S's application that it currently provides both low and high valued services. The Corps (PNG) limited also provides both low and high valued services. The Commission is also aware that G4S has in excess of 70% of market share of the secure security radio transmission business through Pacom who deals with two way radios, repeaters, radio repairs and repeater equipment for secure radio transmission for PNG security firms. Having this control over Pacom and the fact that other security firms usually utilise the services supplied by Pacom, it is very clear that there are issues of vertical integration.

The Commission notes that if the entities merge, G4S will have the power to control the Class B Control Room which currently provide services of remote security surveillance to other competing security firms who utilise this service for backup purposes. This suggests that significant issues relating to vertical integration, especially in terms of surveillance and dispatch, are likely to emerge as 'leverage' problems. So long as competition is vibrant, there is less likelihood of vertical integration leverage issues emerging. The acquisition, if it proceeds, would so significantly change the competitive landscape that it would put competitors in the security services market in the position of dependence on the market leader for wholesale services and technological inputs, which is also their competitor for end-use customers in the relevant market, with the ability to control one of their essential inputs.

## **10. Summary and Conclusion**

To grant a clearance under Section 81(3) of the ICC Act, the ICC must be satisfied on the basis of the facts given, that the acquisition will not have, and will not be likely to have, the effect of substantially lessening competition in a market.

The Commission notes that the acquisition will remove a subsidiary of an international firm in PNG, and potentially the different products and services that are the key strengths of The Corps for competition within PNG against other multinational security firm like the G4S. While taking a broad market definition, the Commission has identified the relevant security services market and relevant market segments within the security services market,

and has taken account of competition effects within the segmented markets as well as the broader market. The market segments are as follows;

- Building entry guards or static guards;
- Armoured vehicle cash/people delivery;
- Guard dog provision;
- Computer security;
- Event Security;
- Document security;
- Vehicle security patrols; and
- Alarm monitoring, installation, and alarm vehicle dispatch.

The eight market segments can also be broken down into two further categories, namely,

- Low value services
- High value services

The broader and relevant market is the market for the supply of security services in PNG.

In light of this assessment, and taking into account the analysis of the statutory factors as required under Section 69(5) of the ICCA Act and as discussed above, the Commission notes the following:

- The Commission notes that post acquisition, there would not be competition between The Corps and G4S in the provision of high valued services in the centres other than Port Moresby. G4S will become the dominant provider as it has offices in the other centres as well as Port Moresby.
- Likewise, the import of new ideas and technologies will no longer be there as there would not be any, or there will not likely be any, competition in the importing of new ideas and technologies. G4S will be the dominant firm importing new ideas and technologies. Other small security firms in PNG are unlikely to import new ideas and technologies because of their limited financial capacity to import and deploy new and innovative products.
- Based on the market share of G4S both in the market for low-value services and the high-value services, it is apparent that the merged entity will dominate both sectors of the relevant market and will be able to influence the price of the products supplied within the relevant market.
- International security firms would not want to enter a market where there is a dominant security firm already operating in the market. They would tend to look for other markets elsewhere as a more rewarding investment destination.
- The Commission is not convinced with the argument that international security companies would enter the market and set up operations in PNG due to the LNG project and other mining activities. The Commission is not aware of any international firms entering the market in recent times, other than G4S through prior

acquisition of a PNG based player.

- Although there has been new entry into the market, especially by smaller domestic security firms that are going into joint venture arrangements to provide security services to these big projects, any potential competitor would certainly face the challenges of overcoming access to customers and other barriers to entry outlined above prior to being able to enter the market and become an effective competitor.
- The Commission observed most security firms in PNG provide low valued services while the high valued services are provided by G4S, The Corps and Guard Dog. For the low-value services, there are a number of players in this market therefore it may constrain the competitive behaviour of the merged entity post acquisition in that market segment, for some time. However, because of its capacity in the high-value market, the small security firms would not be a constraint to the competitive behaviour of the merged firms in high-value services; rather they could, or would likely, become victims of potential price manipulation and might go out of business.
- The Commission found that if the two firms merge, the number of suppliers in the high-value services market will decline thus lessening competition in this market segment. There will be significant market concentration as the merged entity will control a large percentage of this market segment.
- There may be a limited set of situations where major customers could, theoretically, exercise countervailing power, but that is limited to a very small proportion of the customer base within the relevant market and to very special circumstances outlined above.
- Because of the market share that the merged entity will have post acquisition, it is likely that competition will be substantially lessened in the market.
- For the high-value services, the merged entities would be in a position to sustain price and profit increases because there will only be one significant competitor (with lesser market share) operating in this market. With a high market share, the merged entity is likely to be able to influence the prices of the products in this market thus increasing its profit margins.
- The Commission considers that as the crime rate, terrorism and economic growth increases, there will be an increase in the demand to engage existing security firms to provide either low or high valued services. Furthermore, there will also be an increase in the demand for private security firms to use advanced technologies to meet the standards and requirements of its customers. There will be an opportunity for growth and innovation in the general private security market if there is workable competition. The proposed acquisition is likely to lessen competition to the point where it is no longer 'effective or workable'.
- There will be vertical integration issues in the areas of installation and communications integration, and the control and monitoring of security systems, with the scope to confer significant 'leverage' capabilities on the merged firm.

In the broader and relevant market for the supply of security services in PNG, based on the above analysis, the Commission's assessment is that competition is likely to be substantially lessened in this market. Even if the alternative view is taken, resulting in the acceptance of a multiple market definition, in considering the competition effects in the relevant markets independently, the foregoing analysis leads the Commission to conclude that the proposed acquisition is likely to lead to a substantial lessening of competition in those markets.

## 11. Decision

In view of the above factors, analysis and considerations the Commission is not satisfied that the acquisition, of the 100 percent shareholding of The Corps PNG Ltd by G4S Holdings, will not have, and will not be likely to have the effect of substantially lessening competition in the market for the supply of security services and, therefore declines to give a clearance for the proposed acquisition pursuant to Section 81(3) of the *Independent Consumer and Competition Act 2002*.



**Assoc. Prof. Billy Manoka**  
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27<sup>th</sup> May 2011

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