7th August 2014

Dr. Billy Manoka  
Chief Executive Officer and Commissioner  
Independent Consumer and Competition Commission  
1st Floor Garden City, Angau Drive,  
PO Box 6394, Boroko  
National Capital District  
Papua New Guinea

Dear Sir,

Clearance or authorisation of (Proposed) Acquisition of Motukea Pursuant to ICCC Act

1. INTRODUCTION

The Parties to the acquisition.

The parties to the acquisition are PNG Ports, IPBC, and the Independent State of Papua New Guinea as the purchaser, and seller Curtin Brothers Limited.

The Government of Papua New Guinea has been considering the relocation of Port Moresby Port to a suitable site over the last 20 years. This is due to the lack of available land in the current location for expansion coupled with the increase in trade and also traffic congestion it creates in the heart of the city. NEC had delegated Independent Public Business Corporation (IPBC) this responsibility via National Executive Council (NEC) Decision No: 116/2012 dated 15th May 2012. The subsequent NEC Decisions are Nos. 353/2013, 14/2014, 194/2014 and 214/2014.

Oversight of the Project is maintained through the Project Steering Committee (PSC) which consists of the Office of Chief Secretary, Department of National Planning and Monitoring, Department of Environment and Conservation, PNG Ports Corporation Ltd (PNGPCL), Department of Transport, Department of Lands and Physical Planning, Department of Treasury, National Maritime and Safety Authority and National Capital District Commission of which IPBC is the Chair. A Project Management Unit is set up to implement the Project.

IPBC Project team has considered various sites suitable and whilst the project was in progress Curtin Brothers made an offer to sell part of Motukea for K800M to the State of PNG to relocate the Port Moresby Port.

The PSC has considered this offer positively due to its own merits, specifically immediate availability against other options of 7-8 years of construction period and relatively lower cost against possible K3 billion to construct such a facility. Further delays and cost may incur due to potential challenging landowner issues.
IPBC through the NEC appointed Negotiating Committee headed by the Chief Secretary to the State Sir. Zeronuc Manasupe negotiated with Curtain Bros in relation to the acquisition of the Motukea Port. We have been notified by Independent Consumer and Competition Commission (ICCC) that the Independent Consumer and Competition Commission Act 2002 (the Act) has implications for this proposed acquisition and that consideration by the ICCC is necessary. We are committed to ensuring a thorough assessment of the proposed acquisition and so welcome this opportunity to make a submission to the ICCC.

It is important it highlight that the timing is of essence to the timely relocation of the Port prior to the 2018 scheduled APEC meeting.

As a result of the implications of the Act, I am writing to you to seek preferably clearance of the acquisition or authorisation of the acquisition by the ICCC. The remainder of this letter sets out:

- Our understanding of the Act and its implications for this application;
- A summary of the proposed acquisition;
- Our consideration of the effect of the proposed acquisition on competition; and
- Our consideration of the public benefits of the proposed acquisition.

**The Act and its implications for this application**

A focus of the Act is to prevent anti-competitive behaviour in commercial activity in Papua New Guinea (PNG). One specific form of anticompetitive behaviour set out in section 69(1) of the Act is the acquisition of assets of a business or shares that would have, or would be likely to have, the effect of substantially lessening competition in a market in PNG.

The prohibition on acquisitions that substantially lessen competition is, however, not absolute. The ICCC is given power to provide either clearance or authorisation to merger and acquisition activity (following an application by the acquirer). This clearance or authorisation grants the acquirer immunity from legal action under the Act, by the Commission or by a third party for breach of the mergers prohibition in section 69 of the Act.

IPBC highlights that “Essential Port Services” is a regulated industry in PNG and by the application of regulation and scrutiny by ICCC makes this authorisation not required as ICCC regulates the port charges. Such an authorization is required only if the services are deregulated and the market forces determine the pricing in the market place.

Granting of clearance or authorisation are two distinct actions with two distinct regulatory tests:

- **Clearance**: Section 81(3) of the Act provides that if the ICCC is satisfied that the acquisition will not have, and will not be likely to have, the effect of substantially lessening competition in a market, then the ICCC shall give a clearance for acquisition.

- **Authorisation**: Section 82(3) of the Act sets out a two stage process. First the ICCC considers whether 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. Clearance may be granted at this stage. If it is not so satisfied the ICCC then considers whether it can be satisfied that the acquisition will results, or will be likely to result, in such a benefit to the public that the acquisition should be permitted to go ahead. If the ICCC is so satisfied then authorisation is granted.

In essence, the Act sets out that, if competition is not substantially lessened due to the acquisition then a clearance may be issued but that, even if there is a substantial lessening of competition
expected, authorisation may be issued if the benefit to the public is sufficient to exceed the
detriment to competition.

The IPBC recognises that the proposed acquisition of Motukea should be put to the ICCC per its
advice. The IPBC considers that the anticompetitive effects are unlikely to be substantial. As a result,
we believe that the ICCC should grant clearance for the acquisition urgently to meet the timeline
before the APEC meeting and for the time needed to construct the balance part of development and
smooth movement of the port from its current location. In the case where the ICCC disagrees with
the IPBC and considers that the anticompetitive effects are likely to be substantial then the IPBC
considers that the public benefits of the acquisition outweigh any detriment to competition and so
the ICCC should grant authorisation for the acquisition.

The following sections set out the IPBC’s arguments around the level of reduction in competition as
well as the level of public benefits expected from the acquisition. First, we provide a description of
the motivation and plan for the acquisition itself.

The proposed acquisition

The proposed acquisition of the Motukea Port is the result of a series of strategic policy decisions and
analysis over the preceding 15 years. The proposed acquisition can trace its initial impetus to the
emergence of the Port Moresby port relocation concept in 1998. The then Government approved, in
principle, for the development of a new port and directed the then Harbours Board to, amongst
other tasks, conduct necessary studies and report its findings. The objectives of developing a new
port were to:

- Alleviate capacity constraints and enable future port growth;
- Reduce landside traffic issues created in Port Moresby by the port; and
- Allow for the redevelopment of valuable downtown land in Port Moresby

A detailed feasibility study was then undertaken in 1999 which identified a number of sites for
potential development. From this list of sites, further analysis was undertaken to identify the
preferred development location. The further analysis involved multicriteria analysis of all
development options, demand forecasting and comparison to potential capacity, geotechnical
investigation, environmental assessment and asset valuations.

Asset or share, subject of acquisition

The preferred site for relocation was found to be Motukea Port. Motukea is a private port currently
owned by Curtan Bros. The existing facility consists of three berths with a total quay line of 530m. In
addition there are also 14ha of swing basin, 27ha of undeveloped seabed lease and 19ha of
reclamation land. The asset, subject of the acquisition is a “Portion of above assets which includes
some existing port infrastructure and undeveloped underwater leases held by Curtan Bros suitable
for these purposes. Motukea focused its attention on LNG cargo movement to construct the LNG
plant in Port Moresby as the current port cannot handle such cargo and the congestion it will make
for the existing business. Now LNG is complete Motukea is remaining mostly an idle asset.

In June 2013, the IPBC took over the full implementation of the Project and a State Team (NEC
Decision 353/2013) to be chaired by Chief Secretary was formed in October 2013 to negotiate the
purchase of Motukea Port from Curtain Brothers. Curtain Brothers on its own accord have offered
to sell Motukea Port to the IPBC, as highlighted above, with negotiations currently focussing on the
final terms of sale.
2. THE MARKET

We noted that the statutory definition of the market encompasses the whole of Papua New Guinea. However for the present case, we are of the view that the *geographical market* is confined to *the whole of the waterfront within the Fairfax harbour*.

In terms of *product market*, we consider the relevant markets to encompass the following:

- **a)** The market for all wharf facilities.
- **b)** The market for the purchase and acquisition of berths and berth reservation spaces.
- **c)** The market for the purchase of temporary storage spaces for goods clearance within the precincts of the port.

We consider the acquisition would have an implication on *related ancillary* services, which we define to be:

- **d)** The market for the provision and purchasing of terminal spaces for stevedoring and handling activities.
- **e)** The market for purchase and acquisition of land within Port Moresby which is suitable for Port Infrastructure Services.

For the purposes of our submission, we consider the relevant markets for competition assessment should be stated as *the market for port infrastructure, and related services within the Fairfax harbour*.

3. FACTS AND CONSIDERATION IN SUPPORT OF THE APPLICATION.

3.1 Clearance requirements under ICCC Act

We note that the clearance Test under Section 8(3)(a) of the Independent Consumer And Competition Commission Act 2002 states that;

*".... (3) Subject to Subsection (5), within 20 days after the date of registration of the notice, or such longer period as the Commission and the person who gave the notice agree, the Commission shall either –*  

(a) 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 for the acquisition; or  
(b) 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...."

We note that for the Commission to be satisfied whether or not there is a substantial lessening of competition, it has to apply the competition test outlined above, and also to take into consideration the statutory factors provided for in Section 69(5) of the ICCC Act 2002.

In so far as competition is concerned, we submit that the acquisition ‘would not result or be likely to result, in a substantial lessening of competition’. One key consideration is that the acquisition is only for a small area of the “Motukea Port”; and undeveloped land and underwater sea area which the Independent State of PNG, through IPBC, and PNG Ports and will develop. Refer to the google maps of area attached.
Clearance – the competition test

As noted above, section 81(3) of the Act provides that if the ICCC is satisfied that the acquisition will not have, and will not be likely to have, the effect of substantially lessening competition in a market, then the ICCC shall give a clearance for acquisition. The IPBC considers that the proposed acquisition would not have, the effect of substantially lessening competition in the market and so the proposed acquisition should be given clearance. As noted earlier, Motukea remains largely an idle asset. The rest of this section sets out some detail on our considerations.

For the proposed acquisition to substantially lessen competition in the market there must already be, or be likely to be, competition present in the market. The ICCC has undertaken a number of recent reviews into the port market in Fairfax Harbour and, while the IPBC may not agree with these views, the ICCC has consistently found that there is not strong competition in the market. For example, in its 2010 “Review of PNG Harbours Regulatory Contract”, after conducting a detailed review of the state of competition in Fairfax Harbour, the ICCC found that:

“the Commission notes that the deed of agreement between PNG Ports and Curtain Bros PNG Limited provides for Curtain Bros to pay tariffs on all cargo passing over its wharf. As the degree of competition is limited by at least the rates outlined in the agreement, the Commission is unable to reconcile that PNG Ports would be at a significant disadvantage from the operation of the Motukea facility.” (2010:31)

That is, there was no significant amount of competition generated between PNG Ports and Curtain Bros. Similarly, in its “Midterm Review of Competition”, issued in 2012, the ICCC conducted another detailed assessment of competition in the harbour and came to the conclusion that:

“an assessment in this report and findings that Motukea Port is not a ‘true’ competitor in the sense usually accepted in industrial organization thinking” (2012:27)

And that:

“for the next 15 years until the expiry date of the Deed of Agreement, there will be no scope for independent competition between PNGPCL and Motukea wharf” (2012:28)

The ICCC has clearly stated that there was no competitive pressure generated by the presence of Curtain Bros at Motukea and that this situation would extend for at least another 15 years from 2012. As a result, it must be the case that the proposed acquisition would not lead to a substantial lessening of competition in the market as the ICCC contends that there is no significant competition present. It is also the case that, the ICCC envisages this remaining the case at least until 2027.

Having said this, we note that the previous decisions by the ICCC were made at a point in time and in circumstances prevailing at that time. This differs from the requirements under Section 69 of the Act which is forward looking and takes into account likely future circumstances. Section 69 could be interpreted as extending beyond the 15 year scope set out in the 2012 ICCC decision.

It is therefore still necessary to consider whether the acquisition would be likely to have the effect of substantially lessening competition in a market. Section 69(5) sets out a number of factors affecting market competition to be taken into consideration:

3.2 Statutory Factors Under Section 69(5) of the ICCC Act

For the purposes of Section 69(5) of the ICCC Act, we submit our views as hereunder.
(a) Actual and potential level of import competition in the market

There has and will never be any actual or potential import competition in the market, as the market is strictly local and only confined to Port Moresby.

(b) Nature and effect of barriers to entry in the market

Although there is some level of barriers to entry, especially for infrastructure, any new entrant can be able to overcome with some level of investment. The Commission’s own regulatory contract of PNG Ports, which includes performance based indicators and KPIs for management, and harsh penalties would ensure that any significant market power in some of the markets that PNGPCL would be countered through regulatory oversight by the ICCC.

Moreover, that the Government is working towards unbundling PNG Ports, and has worked out a White Paper on SOE Policies. This would ensure that in this term if government or next, PNG Ports would no longer be administering the Habours Act 1997 and other delegated functions, but, will concentrate on commercial enterprises and competing with others players in the market, thereby, removing this regulatory barrier, that had been a cause of concern by Government for some time.

A State submission is before the Cabinet on this matter, and we expect to rollout the unbundling once all internal processes are in place, with the Department of Public Enterprises taking charge of this matter.

(c) The number of buyers and sellers in the market;

Buyers – There are now many buyers of services, esp shipping companies, stevedores, consignees of international and domestic cargo that uses those services. The demand for port and shipping services is a derived function, basically dependent on general economic demand. PNG is forecasted to grow by 21 % per annum in GDP, and Lae and Port Moresby, as the busiest ports, will contribute immensely to this growth.

Due to the nature of this business, there are few sellers of the services in this market, these are:

(a) Bismark – domestic cargo
(b) Steamships – domestic cargo
(c) Motukea – international project cargo
(d) InterOil Napanapa – own project cargo
(e) Exxon Mobil LNG – LNG Specific cargo for gas loading to offshore markets.

The number of sellers in the market would continue to remain the same under the current environment. It will not change. The acquisition of part of the Motukea port facility would ensure that PNG Ports relocates to a new facility and develops it further, side by side with Curtin Brothers, who would continue to own and operate their own port and related facilities to service clients in the market.

There is however room for new players to enter the market so long as it is profitable and worthwhile to do so. Given the increasing number of buyers, it is possible for new entry into this
market. Regulation can be overcome by new entrants who meet the qualification criterion to operate berths and ports services.

(d) Degree of countervailing power in the market

There is absence of countervailing power in this market for general cargo, although other companies like logging and the rest had opened up their own berthing facilities for use (example) at Bootless Bay.

For few project cargo, long-term in nature, few companies provide their own services within the harbour precincts.

(e) The likelihood that the acquisition would result in the acquirer being able to significantly and sustainably increase prices or profit margins;

There is no likelihood as price is regulated by the ICC under the Prices Regulation Act via the Regulatory Contract with PNGPCL. Any tariff charged by PNG Ports for these services will always be set and approved by the ICC, hence there is no likelihood of it raisin prices substantially and significantly, with or without the acquisition.

Moreover, the acquisition would not remove Curtin Brothers from the market, as they own a substantial part of the Motukea, and will continue to do so. Their facilities will provide a competitive constraint to PNG Ports, or other downstream market players and hence any significant increase in price would be mitigated by competitive tension that will be provided with the acquisition.

(f) The extent to which substitutes are available, or are likely to become available, in the market;

There is no likelihood of any substitute become available, although possibility for supply side ONLY in so far as new entry into the market is concerned, which is currently very limited, if any, to only domestic cargo. International cargo is still monopolised to a larger extent other than few through Motukea wharf facilities.

But the increase in demand for goods and services, as a result of expansion of economic activities and growth would result in possible substitute products offering in the market to meet the demand, as is the case with LNG wharf, Napanapa (for project cargo) and for general cargo, other new comers.

(g) The dynamic characteristics of the market, including growth, innovation and product differentiation;

The market is not dynamic, other than the increase in demand for services through increase in economic activities and demand for port services increasing. Overtime, the market will experience increase in demand and other ports owned by players such as Bismark and Steamships could expand to provide the services to international shipping companies. Curtin Brothers themselves would in-fact be able to own and operate their private wharf to service their demand and client’s demand.
(h) The likelihood that the acquisition would result in the removal from the market of a sustainable, vigorous and effective competitor;

Curtin Brothers owned and operated the Motukea port for a very long time, the same as PNG Ports does in its current location in the CBD waterfront. In all these years, they have never been in competition.

The ICCA recognises this in its ‘Mid-term competition review of PNG Ports’. Accordingly, the acquisition of a “part of Motukea”, would in no way remove a vigorous and effective competitor from the market.

This acquisition of part of Motukea owned by Curtin Brothers would ensure that the government of PNG through PNG Ports continue to undertake substantial investments in the Port facility, similar to the investments it has undertaken in Lae tidal basin project, which would result in improvements in the port facilities, indirectly generating competition in downstream markets, as well as upstream markets where they exist.

(i) the nature and extent of vertical integration in the market.

Motukea is in some way a vertically integrated company, and a diversified company in the Port /Shipping business in PNG. PNG Ports only supplies wharf facilities or essential services, as such is subjected to ICCC Price and Service Regulation.

The acquisition of this asset, as stated above, is only one portion of the entire Motukea owned by Curtin Brothers. The acquisition therefore, in no way would result in any vertical integration in this market, nor any other downstream markets.

OUR POSITION ON SUBSTANTIAL LESSENING OF COMPETITION

In view of the above, we do not see any substantial lessening of competition in either the upstream or downstream markets. The acquisition would generate healthy competition benefits. It would;

- Increase PNGPCL’s ability to provide sufficient port facilities at the upstream markets, which triggers off efficiency benefits to the entire supply chain within and around the port area. This would cause a chain reaction in competitive pressure within the downstream market, i.e. within the port operations for stevedoring and handling, trucking operations, storage spaces within nearby lands. These competition outcomes in downstream markets would be realised if PNG Ports expands its current facility from where it is now.
- It would not subsume Curtin brothers, who would continue to operate independently of PNG Ports.

Accordingly, we opine that the acquisition of the assets of Curtin Brothers, as described under point 1 above, by PNG Ports Corporation by IPBC will not have, and will not be likely to have, the effect of substantially lessening competition in a market, and therefore the Commission must grant clearance for this acquisition to proceed.

Authorisation – competition test and public benefit test

IPBC believes the proposed acquisition will meet both positions of not significantly lessening competition and huge public benefit.

In this situation, we also consider that the acquisition results in significant public benefits that outweigh the small reduction in competition that could occur in the short run. This aligns with Section 82(3) of the Act which sets out a two stage process for first considering competition and then
public benefit. If the ICCC can be satisfied that the acquisition will result, or will be likely to result, in a net benefit to the public then the acquisition should be permitted to go ahead with authorisation being granted.

The IPBC considers that the proposed acquisition has significant public benefits. These public benefits relate back to the three objectives of developing a new port:

- **Alleviate capacity constraints**
  
The demand for port services is a derived demand proceeding from demand for goods in the domestic economy. In a growing economy like PNG’s, the demand for port services is expected to grow strongly over coming decades.

Recent port forecasts, developed by AECOM (2012), indicate that Port Moresby is expected to experience average growth rates of around 6.1% a year to 2030. At these growth rates port volumes will roughly double by 2025.

The same analysis indicated that, with these growth rates, the port would be expected to exceed its current operational capacity in 2015. This estimate is based on current economic conditions, combined with future shipping and cargo growth trends. Port freight forecasts compared to current port capacity is shown in the figure below:

![Port freight forecasts and capacity (tonnes)](image)

Source: AECOM (2012)

A constrained port would have significant negative effects for the PNG economy. Constraints at the port lead to either queuing or higher prices for shipping lines. In either case, this generates costs which are passed on to freight users and, eventually, consumers. Higher costs of imported goods will negatively affect the standard of living of PNG residents while higher costs of exports will reduce the competitiveness of PNG’s producers. The precise quantum of these benefits are challenging to estimate and will be the subject of further analysis, described below.

In contrast to the situation with the current port, moving the port to Motukea will allow capacity constraints to be reduced. Port operational modelling has been undertaken for the site in Motukea. The study has confirmed that Motukea will be able to meet the future increase in demand for port services. A new, higher capacity facility will allow for the efficient import and export of goods.
Relocation to Motukea will also allow for landside capacity constraints to be alleviated. The relative abundance of land at the site will allow for the entry of new providers of ancillary services, such as storage, as well as for the construction of efficient distribution facilities. For example, two of the largest land transport providers have already established cargo storage yards in the vicinity of Motukea.

Alleviation of capacity constraints will, in turn, underpin economic growth for PNG by helping to keep costs of living down and helping to keep PNG’s producers competitive on international markets. It should also be noted that, in addition to meeting overall tonnage capacity requirements, the site at Motukea also meets other likely future capacity requirements such as forecast dimensions of ships. This will be achieved through the port modification, introduction of large ships into the port, the utilisation of ship to shore cranes, improved turn around times and employment creation. Ultimately establishing a regional hub in Port Moresby.

- **Reduce landside traffic issues created in Port Moresby by the port**

  The port freight volumes discussed above create substantial landside traffic movements. For example, if an average vehicle exiting the port carries around 25t then current port volumes generate around 84,000 vehicle journeys each year – around 230 trucks every day. This volume is expected to increase to over 200,000 vehicle movements by 2030 – around 550 trucks every day.

  The volume of truck movements itself is not a major issue, rather the landside traffic issues arise from the fact that the port is currently located extremely close to the Port Moresby CBD. This means that any freight moving in or out of the port must first negotiate the heavily trafficked CBD and then may also have to pass through densely populated areas to the east of the CBD. The disadvantages of the port’s current location for landside access are illustrated in the figure below.

  ![Figure 1.2: Schematic of Port location](image)

  Source: The IPBC

More precisely, Heavy vehicle movements near the CBD create two main costs:

- **Congestion costs**: heavy vehicles contribute to road congestion which creates costs for other road users. Congestion costs can be significant and are, anecdotally, noted as being very high in Port Moresby. Valuing congestion costs is difficult without a detailed analysis of transport movement patterns in Port Moresby and how these relate to port freight
movements. In an extended analysis, described below, we will attempt to place a value on congestion costs created by vehicles travelling to and from the port.

- Other Externality costs: the noise, pollution and danger created by heavy vehicle movements also generate significant costs. Noise affects local businesses and communities, pollution affects the environment and accidents generate costs in terms of medical care and loss of life. Estimating these costs are also challenging and the extended analysis, discussed below, will attempt to place a value on them. As a general indicator, however, Deloitte Access Economics (2012) has valued road transport externalities at an equivalent of around 2 toea per nett tonne kilometre. This give a current indicative value of freight externalities generated by the port of around 400,000 – 500,000 PGK a year. [EGM2]

- Allow for the redevelopment of valuable downtown land in Port Moresby

As noted above, the port is located very close to the CBD on some of the highest value land in Port Moresby. Relocating the port to Motukea would free up this land and allow it to be redeveloped given the upcoming Pacific Games in 2015 and the APEC Meeting in 2018. Depending on the precise use of the land, redevelopment could result in some combination of:

- Increased commercial floor space;
- Increased residential properties; or
- Increased recreational facilities.

The economic benefits created by this potential development are complex and will depend on the precise nature of the development. For example, increased commercial floor space will work to lower the costs of leasing for businesses. This will create benefits by reducing the costs of production and making PNG firms located in Port Moresby more efficient. In contrast, the benefits form increased recreational facilities would be measured by the value that consumers derive from their use. For example, if the area was redeveloped into a marina then its value would be related to the recreational value of sailing and other leisure activities associated with a marina.

Sale of the land for redevelopment will result in it being allocated to the highest value use. As a result, the best way to measure these benefits is through an estimate of the market value of current port land if sold for redevelopment. In an extended analysis, described below, the IPBC will attempt to place a value on the public benefit generated through freeing up land by relocating the port.

The structure of Section 82(3) of the Act means that these broader economic benefits must be weighed against any potential costs of reduced competition. It should be noted that, while the IPBC maintains that the competition effects of the proposed acquisition are not substantial, the analysis in the following section proceeds on the basis that the ICCC considers competition effects to be substantial.

In the presence of reduced competition there is likely to be a pricing effect, whereby the firms remaining in the market are able to raise their prices. Higher prices are, however, a transfer of wealth between different parts of the economy and so do not represent a true cost to the economy. The true cost to the economy relate to reductions in port efficiency. This is particularly true over time as a major driver of dynamic efficiency is competitive pressure.

However, in industries where there are significant economies of scale, such as port services, there is a countervailing force to the effect of reduced competition on efficiency: the effect of scale on efficiency. Fewer competitors mean a larger scale for remaining firms and, in the presence of
economies of scale, lower costs. Each of these factors needs to be analysed separately and brought together to provide an indication of the net effect of reduced competition.

There is some research internationally on the relationship between port competition and efficiency. The results of the research indicate that port efficiency only improves marginally with increases in competition. For example, Yuen et al (2011) find that adding an extra independent stevedore adds 2.5% points, on average, to productivity growth rates. These benefits are also likely to decline over a period of around 6-7 years based on international experience with port productivity improvements.

On the side of economies of scale, research by Deloitte Access Economics (2013) indicates that increasing scale by 10% leads to around a 2% increase in expected productivity levels. It should be noted that this analysis is based on experience in Australia and may not translate perfectly to PNG.

Putting these two halves together suggests that the productivity costs of reduced competition would be offset by scale benefits by around the mid-2020s. Beyond this date, the scale benefits of port expansion enabled by the proposed acquisition may actually result in net economic benefits. This calculation is preliminary and will be investigated in more detail in the work described below.

The port development will demand the improvement of essential services such as power, water and sanitation to the area. Both the establishment of LNG refinery and the port expansion will encourage growth. Furthermore, benefits will flow through to the landowners within this area in terms of employment and economic.

The greatest public benefit that will emanate from this proposed acquisition as far as the alternative uses of the land currently occupied by PNG Ports Limited is the Government of Papua New Guinea's intent to develop infrastructure and facilities in this particular area in preparation for PNG's hosting of the APEC 2018 meeting in our country. This development and the spin off economic and social benefits that will emanate from it will be substantial not only for this particular area of Port Moresby and Greater Port Moresby but also for PNG's standing as a country in successfully hosting such an international event of such magnitude as the APEC 2018 meeting.

Summary

In summary, the IPBC recognises the urgency of implementing the National Government’s Decision by NEC decision 214/2014 and that the proposed acquisition of Curtain Bros may, potentially, have some competitive effects and so considers that the proposed acquisition should be put to the ICCC. The IPBC considers that the anticompetitive effects are unlikely to be substantial. As a result, we believe that the ICCC should grant clearance for the acquisition.

In the case where the ICCC disagrees with the IPBC and considers that the anticompetitive effects are likely to be substantial then the IPBC considers that the public benefits of the acquisition outweigh any detriment to competition and so the ICCC should grant authorisation for the acquisition.

The IPBC requests approval from ICC to proceed with acquisition of Motukea by PNG Ports.

Yours sincerely,

[Signature]

Mr Wasantha Kumarasiri, OBE
Managing Director
References

AECOM (2012), “Lae and Port Moresby Port Master Plans”.