

KAMBANG HOLDINGS LTD



**COMMENTS ON DRAFT REVIEW OF THE PNG
COASTAL SHIPPING INDUSTRY**

**PREPARED FOR KAMBANG HOLDINGS LTD,
PRINCIPALS OF LUTHERAN SHIPPING**

by

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Comments on Behalf of Kambang Holdings

Draft Report

REVIEW OF COASTAL SHIPPING INDUSTRY

General

This report has failed to come to grips with the main problem of Coastal Shipping Industry and the coastal people of PNG. That is that there is either no service at all or it is carried out by outboard dinghy and is prohibitively expensive for average villagers. Nothing in this report offers a solution to that problem.

Cover

If you are to have a photo could it at least be of a PNG ship in a PNG port?

Role of ICCC

On at least three occasions in the report (p4, p41, p52, p55) the Commission comments on the unlikelihood of Government subsidising shipping services. It is not the role of an independent advisory commission to guess what the government's view or policy is or may be. It **IS** its role to make recommendations about the best policy option that the government should pursue and it is then up to the Government to accept or reject that advice e.g. Productivity Commission in Australia.

Analysis

This very descriptive report contains no hard analysis at all.

- What are the comparative costs of coastal shipping in PNG and other similar sized countries with the same number of coastal and island villages?
- What is the cost to a village producer of using a banana boat to bring cargo to market and return home¹?
- What would be the real reduction in freight rates if cabotage was lifted?
- What should the cargo and passenger charges be?
- What is the disability that PNG shippers face as a result of the Interoil deal (overseas vessels would undoubtedly be getting their fuel cheaper)?
- How much cheaper?
- What are the comparative costs of PNG Harbours versus other ports in similar countries?
- What are the comparative costs of stevedoring in PNG versus similar countries?
- What are the causes and costs of these causes of the high freight rates in PNG?

¹ A village producer told the author that it will cost him K600 to transport his new drier from Kokopo to West Coast New Ireland by banana boat (28 October 2006). It is not uncommon for village producers to pay in excess of K50 for themselves, K50 for their produce and K50 for return fare plus a charge for outwards cargo, this equates to a cost of K2100 per tonne when the price of copra is actually around K550/tonne.

The Major Issue

In the current situation we know that there is no service to most of the isolated small ports and villages of PNG and that the status quo is not an option unless the government wants to encourage wholesale migration away from those centres. We also know that the Government provides roads on the mainland and in some island locations but as much as 20% of the population of PNG are affected by the lack of maritime services another 20% are equally affected by lack of air transport.

Copra is currently fetching around K550-600 per tonne and is uneconomic at prevailing banana boat charges. In a perfect market this would force people in isolated villages to look for alternative higher value, lower volume crops, the reality is that this has not happened, largely because there are no readily available alternatives. Where there have been attempts to do so they have not been sustained².

In the period before and just after Independence the Government recognised that and provided a shipping service known as the “Government Fleet” which plied the coast of all coastal provinces with different sized work boats and what were known as trawlers. These carried outwards government officers, passengers and supplies and brought back passengers and produce. They were the lifeline of isolated government outposts as well as isolated villages along the coast and on the atolls and small islands.

Up until 1997 there was also a “Government Charter” service for light aircraft doing the same thing. After the introduction of the present provincial government system this ceased in most places and now around 50% of small airstrips are not functional.

We believe that there is an overwhelming argument that the government has to provide services to all of its people and therefore there has to be a change from present policy where health and education services are not reaching most of the people and social welfare indicators are declining. PNG has the worst Human Development Indicators in the Pacific³ and this can only get worse unless the transport problem is overcome. This is not a problem of shipping between main or even smaller ports but a problem of giving access to the modern economy, goods and services to a large proportion of Papua New Guineans who are presently denied it.

The only way that can happen is for the government to subsidise air and sea transport to isolated villages. This has two components, the first is to ensure that there are suitable (custom built if necessary) vessels that modern and efficient available to carry out this service and second that there is a good estimate of costs and a strong incentive built in to the actual service so the provider is compelled to provide it at the cheapest possible price to both consumer and government.

In tandem with this the government has to encourage people in remote areas to grow cash crops or engage in some form of cash activity so that there is outwards freight and cash to provide the demand for inwards freight. We consider that the Commission should be advocating:

- A subsidy and calculating what the level of subsidy should be;

² The Collingwood bay people had a business exporting tapa cloth products to the US but this folded up for a number of reasons, some within their control some outside it.

³ Human Development Report p122: www.hdr.undp.org; PNG 137/177 countries.

- The cost of ensuring that adequate education and health services are provided to these places and how much the payment by government for these personnel to travel would provide an incentive to coastal vessels to provide the service;
- Setting performance indicators for the subsidised services; and
- Methods to identify and/or revive commercial activities in remote coastal villages and calculating what these activities can afford to pay in freight charges.

Harbours

1. We are not convinced that the Commission is being nearly rigorous enough in its monitoring of Harbours. There is little justification for the new wharf in Port Moresby and it has not been allocated to any permanent large scale, full time user.
2. We understand that Harbours has changed it name for the second time in 5 years, how much will this cost and who pays for it?
3. We agree that there is a need for competition for Harbours from private wharves.
4. We believe that the Commission should comment on the best policies for the on-going management of Harbours i.e. should there be full or partial privatisation? What is the best form of management of the port system in a country of PNGs size? What are overseas comparisons? How do we maximise efficiency of the port system?
5. The Commission must **answer** questions like "...whether PNG Harbours in its present form will be capable of making the long term, commercial financial commitment that is requires...."⁴.
6. We recommend that the report goes further in suggesting that inclusion of nominated members of the board and insists that designated user organisations nominate members directly to the Board e.g. Shippers Council, Chamber of Commerce, Rural Industries Council etc. However we note there is an inconsistency between the Commission's recommendations here⁵ and its observation regarding the impartiality of the Coastal Trading Committee (see below).
7. The Commission states that the Harbours should "improve the overall transparency of (their) financial accounts...."⁶. It does not say how or when? It also talks of a "concerted effortto resolve the long term infrastructure needs ..." It does **NOT say** whether PNG Harbours Ltd is capable of doing this in its present shape.
8. The report says that provincial "will come to a point wherethey will be in a better position to fund some of the infrastructure of such facilities"⁷. This shows a fundamental misunderstanding of the realities of provincial governments which are chronically under-funded from the National Government⁸ and already cannot carry out all the functions that have been transferred to them.
9. As stated previously the state of affairs at PNG Harbours Ltd is an important issue in the cost of providing existing services. However this ignores the real problem of providing a service to the hundreds of thousands of Papua New Guineans who are currently not being served. The report does note that the PNG shipping industry has been innovative in this area for many years but this doe not help the village farmer who needs an affordable service to get his produce to market and this will be outside the gamut of PNG Harbours Ltd.

⁴ Report p8

⁵ p40

⁶ p10

⁷ p11

⁸ The Morobe Provincial Government has twice taken the National Government to court and won but not received any more money.

Cabotage

1. This section should have had factual analysis rather than a descriptive narrative. The end conclusion is whether the domestic shipping industry would survive the lifting of restrictions on overseas vessels carrying cargo between domestic ports. There hasn't been any analysis of what the overseas vessels may or may not charge or whether domestic vessels could afford to compete with them.
2. The report states that "coastal shippers have invested in vessels designed specifically for particular PNG environments and locations"⁹ and "...the investment in new ships...is a practical way of ensuring that services will continue to be offered to remote locations...". The fact is that services **are not** being offered to remote locations and the removal of cabotage would make it even less likely that they would be because of the possibilities of cross-subsidisation between the larger ports and the smaller ones.
3. The report draws attention to the possibility that people will move away from remote areas as a result of the removal of shipping services which could result from cabotage. The removal of cabotage would have no effect on this syndrome because there are no services to most of these people **now**.
4. The Commission should make a recommendation on cabotage based on whether the net benefits are greater than the net costs. No attempt has been made to quantify these.
5. The Commission's report quotes a DFAT report¹⁰ and it should make it clear that it is an Australian DFAT report.
6. We do not accept the conclusion that 'operating subsidies should be avoided'¹¹ for reasons stated elsewhere, to do with the present lack of services to remote areas. This report seems to confuse small ports and remote areas. The distinction is that there are some services to small ports and none to remote areas between these ports in large parts of the country.
7. We consider that the decline of the PNG fleet¹² is one of the reasons that services are no longer provided to remote areas and that this trend has to be reversed.
8. We agree that the Maritime College is an excellent facility and do not see there is a link between cabotage and it¹³.
9. The observation that seafarers that are displaced would quickly find new jobs¹⁴ displays an ignorance of the PNG economy where the formal sector workforce has barely grown since independence and the population has doubled making competition for every position very intense.
10. There needs to be much better analysis of the assertion that the savings from lower shipping costs between two or three ports would make the PNG economy more competitive attracting more service providers¹⁵.
11. We contend that safety standards¹⁶ are severely compromised by banana boat operators which have been encouraged by the rising cost of outboard fuel costs meaning they try to load more and more into their boat. Therefore the majority of

⁹ P13

¹⁰ p56

¹¹ p57

¹² p58

¹³ p61

¹⁴ p61

¹⁵ p61

¹⁶ p63

coastal people are exposed to much greater safety risks than those serviced by regular shipping between ports.

Operation of Coastal Licences

1. This states that the Minister has the power to issue licences despite the recommendation of the Coastal Trading Committee (CTC). The current Minister has exercised this right twice in the last few months one on MV Boulari (which is registered in Vanuatu) operating between Rabaul and Buka and for the MV Milne Bay which operates between Kimbe, Lae and Port Moresby. In both cases there were a number of anomalies reported to the CTC which recommended against the issuing of a licence until these had been clarified and the Minister over rode that advice.
2. The report has suggested that the membership of the CTC would have a “vested interest in not recommending....additional coastal...licences given the incumbent position of the majority of the committee members”. The chart shown on p67 states that the CTC is made up of Chairman appointed by the Minister from DoT (now NMSA), 3 members from current coastal trade licensees, 2 members from shippers (people shipping goods) and 1 from representative of customers whose goods are carried on ships. We do not understand why it would be in the interest of any of the latter 3 members to refuse a coastal licence unless the vessel was unsuitable, had some defects or there was some other technical reason why it should not be licensed. The statement that users may be influenced by shippers¹⁷ is unsubstantiated and illogical.

Regulation of Coastal Shipping Rates

1. Draws attention to the fact that there has not been an increase in tariffs since 1991 but does not state that there have been adjustments in other charges particularly the bunker surcharge in the interim. The Commission also notes a change to the currency adjustment factor in 2002¹⁸.
2. Whilst the chart shown describes the procedures as set out in the Merchant Shipping Act the reality is that this mechanism has not been activated for many years and has fallen into abeyance. We consider that the CTC should be disbanded and its advisory powers regarding regulation of shipping for safety and technical reasons be assumed by the Maritime Safety Authority. Pricing issues have always been jointly addressed with the old Consumer Affairs Council and we believe that it should become the role of the ICCC to consider freight rates.
3. We draw the Commission’s attention to the fact that passenger fares are currently not subject to any regulation and vary according to competition and we believe that the ICCC should monitor these as well.
4. There is a comprehensive consultation process for the review of maximum prices for coastal shipping but observes that this process is not being followed¹⁹. It further notes that there is a procedure for review if the Minister is not satisfied and that the Merchant Shipping Act provides for an approach which is consistent with “best

¹⁷ p67

¹⁸ p68

¹⁹ p69, the CTC was called to meet recently to review the submission regarding the introduction of MV Milne Bay and its recommendation was not heeded by the Minister.

industry practice”²⁰. There is no description of how this process works other than the call for “further investigation” which is “carried out” and why this process is akin to best industry practice.

5. The commission also seeks to arbitrate on freight rates in the event that the CTC is unable to provide advice to the Minister²¹. It is not clear why the CTC could not do so and why the Commission has so generously offered its services.
6. If the freight rate has not needed to be changed since 1991 it indicates an amazing improvement in shipping efficiency or that the rate was too high then or a combination of both. The Commission should have analysed which of these it was.

Conclusion

Kambang Holdings is concerned that the majority of coastal dwellers are not receiving any transport services. It does not believe that the report addresses this issue. Whilst the future of shipping between established main and secondary ports is important it is not nearly as important as providing a service to bring those people into the cash economy. We do not believe that this is an easy thing to overcome but we see no other way than a subsidised service in the same way that the government freely provides roads for those people lucky enough to be served by roads.

Whilst we agree that the issue of PNG Harbours Ltd affects the cost of coastal and international shipping, we believe that this report should concentrate on the issues of coastal shipping primarily because those isolated people are also not affected by PNG Harbours Ltd.

We strongly urge the Commission to put forward a report that will provide the best advice to Government rather than what it thinks the Government wants to hear. If privatisation is the best solution in the Commission’s opinion then it should recommend this. If subsidies are the best solution then the Commission should recommend it.

Kambang Holdings Ltd

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1 November 2006

²⁰ p70

²¹ p70